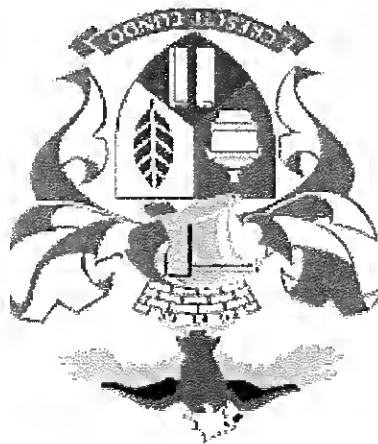


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2016-11-30
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Information: www.sars.gov.za

MKHONDO LOCAL MUNICIPALITY
(Registration number MP303)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Nature of business and principal activities Operating as a Local Municipality

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Member of Mayoral Committee - Finance and Corporate Cllr. N.C. Ndlovu

service

Member of Mayoral Committee - Technical Services Cllr. V.D. Nkosi

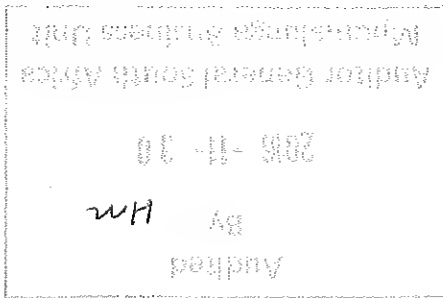
Councillors

Cllr. D.M. Thwala
Cllr. S.J. Methula
Cllr. S.S. Mathebule
Cllr. S.N. Kambule
Cllr. C.G. Mtshali
Cllr. T.E. Khumalo
Cllr. B.J. Vilakazi
Cllr. N.L. Nhlengethwa
Cllr. S.C. Mtshali
Cllr. A.T. Thwala
Cllr. T.S. Nkosi
Cllr. S.P. Kunene
Cllr. N.B. Masuku
Cllr. M.D. Ntuli
Cllr. L.V.A. Mkhwa
Cllr. S.R. Sangweni
Cllr. Z.J. Mntsi
Cllr. K.D. Masondo
Cllr. M.O. Nkosi
Cllr. M.L. Yende
Cllr. M.E. Phakathi
Cllr. B.J. Shabangu
Cllr. C.F. Bios
Cllr. V.W. Masuku
Cllr. J.L.I. Bruss
Cllr. H.A. Mncube
Cllr. T.G.F. Nhlek
Cllr. B.T. Mabuza
Cllr. G.T. Nkosi
Cllr. J.M. Phakathi
Cllr. L. Bosch
Cllr. S.E. Nhleko

Grading of local authority

Grade 3 local municipality

Category B Municipality as defined by the Municipal Structures Act no. 117 of 1998

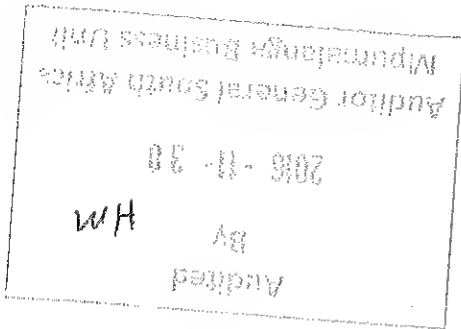


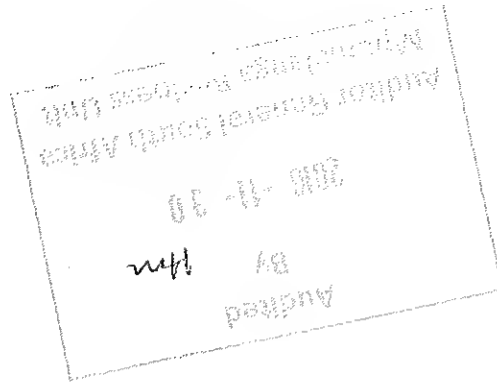
Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Accounting Officer	Mr M.J.S. Mabuza
Chief Finance Officer (CFO)	Mr S. Thobela
Registered office	Cnr Market & De Wet street Piet Retief 2380
Business address	Cnr Market & De Wet street Piet Retief 2380
Postal address	P.O. Box 23 Piet Retief 2380
Bankers	First National Bank A division of First Rand Limited
Auditors	Auditor General South Africa Registered Auditors
Rounding	All amounts have been rounded to the nearest R1,00
Telephone number	(017) 826 8100
Fax Number	(017) 826 3129
Web address	www.mkhondo.gov.za
Email address	sthobela@mkhondo.org.za





The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Accounting Officer's Report	6 - 7
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Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Index

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
CPI	Consumer Price Index
FMG	Financial Management Grant
MLCCM	Municipal Landfill Closure Costing Model
LSA	Long Service Awards
DORA	Division of Revenue Act

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

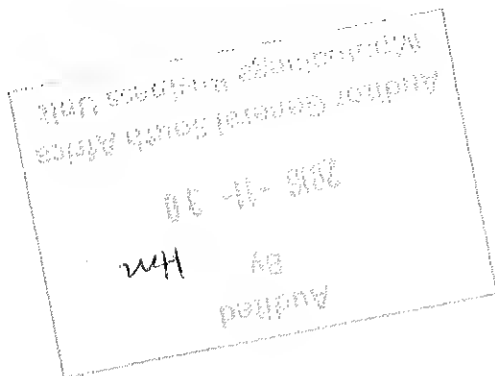
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 106, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed by:

Mr M.J.S. Mabuza
Municipal Manager
eMkhondo



Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality operates as a local municipality within South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 83,734,336 (2015: deficit R 14,336,031).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Accounting Officer's interest in contracts

The accounting officer has no interest in contracts awarded.

4. Accounting policies

The annual financial statements prepared in accordance with prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr M.J.S. Mabuza

6. Corporate governance

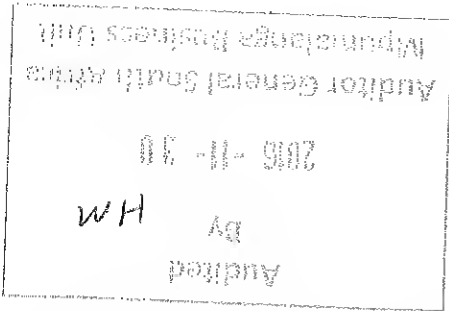
General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the MFMA (Municipal Finance Management Act, No.56 of 2003). The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a monthly basis.

Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.



Accounting Officer's Report

Audit committee

The Audit Committee members for the period under review were as follows:

Position	Name	Date appointed
Chairperson:	Adv. L.T. Nevondwe	01-05-2014
Members:	Mr. W.J. Khumalo	01-05-2014
	Ms. C.A. Nyembe	01-05-2014
	Mr. M.J. Potgieter	Resigned

In terms of Section 166 of the Municipal Finance Management Act (Act 56 of 2003), the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that councillors should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

Internal audit

The municipality has a functional Internal Audit Unit. This is in compliance with the MFMA.

7. Bankers

The municipality mainly banks with First National Bank Limited a division of First Rand limited.

8. Auditors

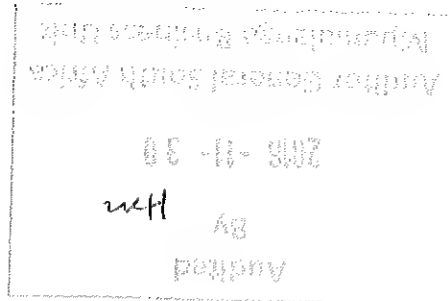
Auditor General South Africa will continue in office for the next financial period.

9. Public Private Partnership

In accordance with the PPF agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Mkhondo Local Municipality did not enter into any Public Private Partnership for the 2015/16 financial year, nor does it have any existing PPP's.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand

Notes 2016 2015
Restated*

Assets			
Current Assets			
Cash and cash equivalents	2	4,026,015	2,152,367
Consumer debtors	3	28,325,503	23,647,617
Inventories	4	9,350,630	11,006,615
Receivables from non-exchange transactions	5	1,048,875	740,067
Receivables from exchange transactions	6	2,557,187	4,402,094
VAT receivable	7	14,253,837	24,725,118
Total current assets		59,562,047	66,673,878
Non-Current Assets			
Biological assets	8	72,264,809	70,794,896
Investment property	9	17,527,900	18,309,600
Property, plant and equipment	10	1,372,635,401	1,235,147,701
Intangible assets	11	158,887	-
Other financial assets	12	157,503	17,505,552
Total Assets		1,462,744,500	1,341,757,749
Liabilities			
Current Liabilities			
Consumer deposits	13	3,271,552	3,150,537
Operating lease liability	14	57,910	56,734
Other financial liabilities	15	580,869	473,871
Provisions	16	-	261,709
Employee benefit obligation	17	1,966,047	1,110,707
Payables from exchange transactions	18	174,962,562	149,928,500
Unspent conditional grants and receipts	19	518,556	333,005
Total current liabilities		181,357,496	155,315,063
Employee benefit obligation	17	20,069,797	20,131,232
Non-Current Liabilities			
Operating lease liability	14	5,275	-
Other financial liabilities	15	380,425	1,335,680
Provisions	16	16,959,814	11,850,247
Total Liabilities		218,772,807	188,632,222
Net Assets		1,303,533,740	1,219,799,405
Accumulated surplus		1,303,533,740	1,219,799,405

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Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

Restated*

Revenue from exchange transactionsRevenue from non-exchange transactionsExpenditure

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$$\frac{d}{dt} \left(\frac{\partial L}{\partial \dot{x}} \right) = \frac{\partial L}{\partial x}$$

with 40

Surplus (deficit) for the year

Operating surplus (deficit)

Total expenditure

General Expenses

Loss on disposal of assets

Transfers and Subsidies

Bulk purchases

Debt impairment
Repairs and maintenance

Lease rentals on operating lease

Finance costs

impairment loss

Depreciation and amortisation

Employee related costs

Expenditure

TOBACCO AND ALCOHOL USE IN THE UNITED STATES

Total revenue

Total revenue from non-exchang

Finances, Penalties and Forfeits

Public contributions and donations

Transfer Revenue

• *Report race*

Taxation revenue

Revenue from non-exchange tra

Total revenue from exchange tra

Dividends received

Gains on disposal of assets

Interest received

Other income

Licences and permits
Rental income

Agency services

Service charges

Revenue from exchange transac

Revenue

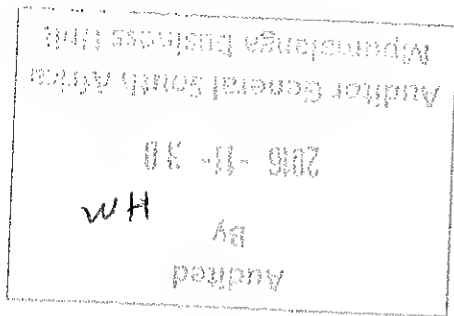
Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets as at 30 June 2016

Figures in Rand		
Accumulated	Total net	
surplus	assets	
		Opening balance as previously reported
1,237,647,021	1,237,647,021	Adjustments
(3,511,585)	(3,511,585)	Prior year adjustments
1,234,135,436	1,234,135,436	Balance at 01 July 2014 as restated*
		Changes in net assets
(14,336,031)	(14,336,031)	Deficit for the year
(14,336,031)	(14,336,031)	Total changes
		Opening balance as previously reported
1,215,172,049	1,215,172,049	Adjustments
4,627,355	4,627,355	Prior year adjustments - note 43
1,219,799,404	1,219,799,404	Restated* Balance at 01 July 2015 as restated*
		Changes in net assets
83,734,336	83,734,336	Surplus/(Deficit) for the year
83,734,336	83,734,336	Total changes
1,303,533,740	1,303,533,740	Balance at 30 June 2016

Note(s)



Cash Flow Statement for the year ended 30 June 2016

Figures in Rand	Notes	2016	2015 Restated*
-----------------	-------	------	-------------------

Cash flows from operating activities

Receipts		34,003,480	31,383,162
Property Taxation		145,020,261	109,053,779
Sale of goods and services		359,515,632	218,970,179
Grants		1,028,258	1,343,117
Interest income		-	77,790
Dividends received		539,567,631	360,828,027

Payments

Employee costs	(137,329,077)	(119,242,527)
Suppliers	(192,387,160)	(163,470,270)
Finance costs	(12,698,943)	(7,528,066)

Net cash flows from operating activities

	(342,415,180)	(290,240,863)
--	---------------	---------------

Cash flows from investing activities

Purchase of property, plant and equipment	(212,634,672)	(92,534,683)
Proceeds from sale of property, plant and equipment	1,430,314	6,087
Purchase of other intangible assets	(167,250)	-
Proceeds from sale of financial assets	18,941,082	(186,904)
Net cash flows from investing activities	(194,430,546)	(92,715,520)

Cash flows from financing activities

Repayment of other financial liabilities	(848,257)	(1,220,006)
Net cash flows from financing activities	(848,257)	(1,220,006)

Net increase/(decrease) in cash and cash equivalents

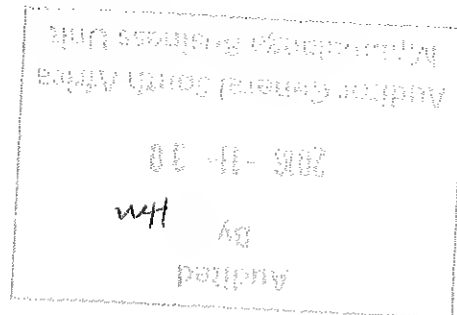
	1,873,648	(23,348,362)
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Cash and cash equivalents at the beginning of the year

	2,152,367	25,500,729
--	-----------	------------

Cash and cash equivalents at the end of the year

	4,026,015	2,152,367
--	-----------	-----------



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2016

Budget on Accrual Basis

Reference	Difference between final budget and actual	Adjusted on comparable basis	Approved Final Actual amounts	Original approved budget	Figures in Rand
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Statement of Financial Performance

Revenue					
Revenue from exchange transactions	129,207,000	-	129,207,000	120,785,386	(8,421,614)
Service charges					
Agency services	6,795,000	-	6,795,000	9,743,260	2,948,260
					Variance is 43.38% more than budgeted. This is due to increase in licensed vehicles from other regions. Variance is 21% below budget due to less vendors registering. Variance is 5% below budget. Less rentals collected. Variance is 72% above budget. This is due to more realised from timber sales. Actual is 41% more than budget. More revenue realised from consumer debtors.
Licences and permits	40,000	-	40,000	31,508	(8,492)
					Variance is 21% below budget due to less vendors registering. Variance is 5% below budget. Less rentals collected. Variance is 72% above budget. This is due to more realised from timber sales. Actual is 41% more than budget. More revenue realised from consumer debtors.
Rental income	798,000	-	798,000	758,391	(39,609)
					Variance is 5% below budget. Less rentals collected. Variance is 72% above budget. This is due to more realised from timber sales. Actual is 41% more than budget. More revenue realised from consumer debtors.
Other income - (rollup)	14,042,000	-	14,042,000	24,105,325	10,063,325
					Variance is 72% above budget. This is due to more realised from timber sales. Actual is 41% more than budget. More revenue realised from consumer debtors.
Interest received - Investment	9,232,000	(949,000)	8,283,000	11,687,746	3,404,746
					Variance is 41% more than budget. More revenue realised from consumer debtors.
Total revenue from exchange transactions	160,114,000	(949,000)	159,165,000	167,111,616	7,946,616
Revenue from non-exchange transactions					
Taxation revenue	38,936,000	-	38,936,000	34,003,480	(4,932,520)
Property rates					
					Variance is 13% below budget. Less property rates were billed.

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Mkhondo Local Municipality

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis

Original approved budget	Adjusted Final	Approved Final	Actual amounts	Difference between final budget and actual	Reference
Adjustments	on comparable basis	Budget			

Figures in Rand

Transfer revenue	243,811,000	153,667,000	397,478,000	359,330,080	(38,147,920)	Variance is 10% below budget.
Government grants & subsidies	-	39,534,000	39,534,000	12,642,184	(26,891,816)	Budget is 68% below budget. This was over-budgeted for.
Public contributions and donations	1,143,000	-	1,143,000	3,779,036	2,636,036	The variance is 231% above budget. The budget was based on collection trends whilst the actuals were based on actual tickets issued.
Fines, Penalties and Forfeits	560	(560)	-	-	-	
Other transfer revenue 1	283,890,560	193,200,440	477,091,000	409,754,780	(67,336,220)	
Total revenue from non-exchange transactions	444,004,560	192,251,440	636,256,000	576,866,396	(59,389,604)	
Total revenue						

Expenditure	(113,732,000)	(3,784,000)	(117,516,000)	(128,741,428)	(11,225,428)	Variance is 10% over budget due to benchmarking of salaries.
Personnel	(11,198,000)	(2,302,000)	(13,500,000)	(13,086,474)	413,526	Variance of 3% below budget.
Remuneration of councillors	(73,058,000)	-	(73,058,000)	(72,299,028)	758,972	Variance of 1% below budget.
Depreciation and amortisation	-	-	-	(3,181,310)	(3,181,310)	Not budgeted for.
Impairment loss/ Reversal of impairments	(446,000)	197,000	(249,000)	(12,698,943)	(12,449,943)	Variance of 5005% above budget.
Finance costs	-	-	-	(3,745,928)	(3,745,928)	Budgeted for.
Lease rentals on operating lease	(28,699,000)	-	(28,699,000)	(29,265,729)	(566,729)	Variance of 2% above budget.
Debt Impairment						Variance is immaterial.

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis

Original approved budget	Adjusted Final Actual amounts on comparable basis	Budget	Difference between final budget and actual	Reference
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Repairs and maintenance	(12,889,000)	(3,338,000)	(16,227,000)	(34,513,029)	(18,286,029)	Variance of 113% above budget. Motor vehicle expenses are budgeted under general expenses.
Bulk purchases	(93,915,000)	-	(93,915,000)	(101,297,057)	(7,382,057)	Variance of 8% above budget.
Transfers and Subsidies	(12,835,000)	-	(12,835,000)	(3,929,752)	8,905,248	Variance is 69% below budget. Less consumers registered for indigent subsidies.
General Expenses	(76,402,000)	(11,254,000)	(87,656,000)	(87,946,110)	(290,110)	The variance is 0.33% above budget which is immaterial.
Total expenditure	(423,174,000)	(20,481,000)	(443,655,000)	(490,704,788)	(47,049,788)	

Operating surplus	20,830,560	171,770,440	192,601,000	86,161,608	(106,439,392)	
Gain on disposal of assets and liabilities	-	1,500,000	1,500,000	151,579	(1,348,421)	Variance is 57.3% below budget.
Fair value adjustments	-	-	-	1,062,926	1,062,926	This was not budgeted for because of management oversight since this is a non cash item.
Inventories losses/write-downs	-	-	-	(3,641,777)	(3,641,777)	This was not budgeted for due to management oversight.
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	20,830,560	173,270,440	194,101,000	83,734,336	(110,366,664)	

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Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis

Original approved budget	Adjusted on comparable basis	Approved Final	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand					

Statement of Financial Position

Assets					
Current Assets					
Inventories	5,195,000	8,906,000	14,101,000	9,350,630	(4,750,370) The variance is 33.69 % below budget. This is due to reduction in stock holding.
Receivables from exchange transactions	8,344,000	(8,344,000)	-	2,557,187	2,557,187 This was not budgeted for.
Receivables from non-exchange transactions	-	-	-	1,048,875	1,048,875 Mainly traffic fine tickets not budgeted for.
VAT receivable	-	-	-	14,253,837	14,253,837 Significant amount of project costs paid at year end.
Consumer debtors	M/94,561,000 (5,233,000)	89,328,000	28,325,503	(61,002,497)	(61,002,497) The amount disclosed as per the budget was gross without impairment provisions. Short term investments were liquidated during the year. The budget includes the investments.
Cash and cash equivalents	24,201,000	(7,364,000)	16,837,000	4,026,015	(12,810,985)
Non-Current Assets					
Biological assets	78,745,000	(7,950,000)	70,795,000	72,264,809	1,469,809 This was due to revaluations as a result of new plantings done.
Investment property	18,822,000	(513,000)	18,309,000	17,527,900	(781,100) Variance as a result of current depreciation not taken into account in the budget figure
Property, plant and equipment	1,126,006,000	147,673,000	1,273,679,000	1,372,635,401	98,956,401 More projects done during the year as compared to budget.
Total					
	132,301,000	(12,035,000)	120,266,000	59,562,047	(60,703,953)

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis

Reference	Difference between final budget and actual	Adjusted Final Actual amounts on comparable basis	Approved Budget	Adjustments	Original approved budget	Figures in Rand
-----------	--	---	-----------------	-------------	--------------------------	-----------------

Intangible assets	Not budgeted for.	158,887	158,887	-	-	
Other financial assets	liquidated investments during the year.	(774,497)	157,503	932,000	900,000	32,000
Investments	liquidated investments during the year.	(42,647,000)	-	42,647,000	26,427,000	16,220,000
Total Assets		56,382,500	1,462,744,500	1,406,362,000	1,372,126,000	1,239,825,000
Liabilities						
Current financial liabilities	The budget was over stated	(207,131)	580,869	788,000	(373,000)	1,161,000
Operating lease liability	Recognition of the operating lease liability.	57,910	57,910	-	-	-
Payables from exchange transactions	Cash flow constraints resulting in the build up of short term liabilities.	102,043,561	174,962,561	72,919,000	9,333,000	63,586,000
Consumer deposits	New connections with regards to new developments	58,552	3,271,552	3,213,000	(83,000)	3,296,000
Employee benefit obligation	No budget for the line item.	1,966,047	1,966,047	-	-	-
Unspent conditional grants and receipts	Not budgeted for in the current year	518,556	518,556	-	-	-
Provisions	There was no short term portion of the land fill site and hence the nil actuals.	(9,322,000)	-	9,322,000	9,079,000	243,000
Non-Current Liabilities						
Other financial liabilities	Variance	(4,575)	380,425	385,000	(323,000)	708,000
Operating lease liability	Not budgeted for.	5,275	5,275	-	-	-
Employee benefit obligation	Due to increase in employee costs	8,218,797	20,069,797	11,851,000	(18,588,000)	30,439,000
Total		95,115,495	181,357,495	86,242,000	17,956,000	68,286,000

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended

Budget on Accrual Basis

Reference	Difference between budget and actual	Adjusted on comparable basis	Approved Final	Adjustments	Original approved budget	Figures in Rand
Long term portion which are budgeted under current term provisions.	16,959,814	16,959,814	-	-	-	Provisions
	25,179,311	37,415,311	12,236,000	(18,911,000)	31,147,000	
	120,294,806	218,772,806	98,478,000	(955,000)	99,433,000	Total Liabilities
	(124,616,259)	1,303,533,741	1,428,150,000	155,457,000	1,272,693,000	Net Assets
						Net Assets
						Owners of Controlling Entity
						Reserves
						Accumulated surplus
						1,272,693,000
						155,457,000
						1,428,150,000
						1,303,533,742
						(124,616,258) More expenses incurred than budgeted.
						(1)
						(1)
						1,272,693,000
						155,457,000
						1,428,150,000
						1,303,533,742
						(124,616,258)
						1,272,693,000
						155,457,000
						1,428,150,000
						1,303,533,742
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						155,457,000
						1,428,150,000
						1,303,533,742
						(124,616,258)
						1,272,693,000
						155,457,000
						1,

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Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis

Reference	Difference between final budget and actual	Adjusted Final Actual amounts on comparable basis	Budget	Original approved budget	Figures in Rand
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Cash Flow Statement

Cash flows from operating activities

Receipts	29,007,000	(973,000)	28,034,000	34,003,480	5,969,480
Taxation					Improved collections
Sale of goods and services	133,253,000	(17,407,000)	115,846,000	145,020,261	29,174,261
Grants	243,811,000	153,667,000	397,478,000	359,515,632	(37,962,368)
					National collections
					treasury guidance not followed during the budget process
Interest income	1,449,000	(949,000)	500,000	1,028,258	528,258
					More interest realised than budgeted for.
	407,520,000	134,338,000	541,858,000	539,567,631	(2,290,369)

Payments	(124,930,000)	(6,086,000)	(131,016,000)	(137,329,077)	(6,313,077)
Employee costs					Increase in salaries.
Suppliers	(183,206,000)	(4,320,000)	(187,526,000)	(192,387,160)	(4,861,160)
					Budget in line with actuals.
Finance costs	(446,000)	197,000	(249,000)	(12,698,943)	(12,449,943)
					Over budgeted for
Other payments	(12,835,000)	-	(12,835,000)	-	12,835,000
Net cash flows from operating activities	(321,417,000)	(10,209,000)	(331,626,000)	(342,415,180)	(10,789,180)
	86,103,000	124,129,000	210,232,000	197,152,451	(13,079,549)

Cash flows from investing activities

Purchase of property, plant and equipment	(92,932,000)	(147,673,000)	(240,605,000)	(194,430,546)	46,174,454
Proceeds from sale of property, plant and equipment	-	-	-	1,430,314	1,430,314
					In appropriate cash flow
Purchase of other intangible assets	-	-	-	(167,250)	(167,250)
					Not budgeted for.
Proceeds of sale from financial assets	-	-	-	16,941,062	16,941,062
					Not budgeted for.
Net cash flows from investing activities	(92,932,000)	(147,673,000)	(240,605,000)	(194,430,546)	46,174,454

Cash flows from financing activities

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Mpumalanga Branch Unit

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts for the year ended :

Budget on Accrual Basis					
Reference	Difference between final budget and actual	Adjusted Final Actual amounts on comparable basis	Approved Budget	Figures in Rand	
				Original approved budget	liabilities
Expenditure in line with budget.	(48,256)	(848,256)	(800,000)	(1,161,000)	361,000
Repayment of other financial liabilities					
Net cash flows from financing activities	(48,256)	(848,256)	(800,000)	(1,161,000)	361,000
Net increase/(decrease) in cash and cash equivalents	33,046,649	1,873,649	(31,173,000)	(7,990,000)	(23,183,000)
Cash and cash equivalents at the beginning of the year	(16,900,633)	2,152,367	19,053,000	33,191,000	(14,138,000)
Cash and cash equivalents at the end of the year	16,146,016	4,026,016	(12,120,000)	25,201,000	(37,321,000)

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Report: 129/1-15/2016/11/16

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below:

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

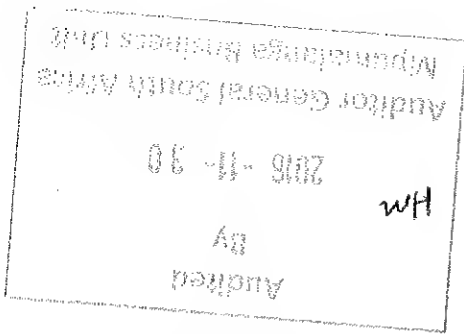
Trade receivables / Held to maturity investments and/or loans and receivables / Consumer debtors

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit. The management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.



The municipality used the prime interest rate to discount future cash flows.

Effective interest rate

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Post retirement benefits

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Useful lives of waste and water network and other assets

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Provisions

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Impairment testing

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The fair value estimation in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

Fair value estimation

1.2 Significant judgements and sources of estimation uncertainty (continued)

Accounting Policies for the year ended 30 June 2016

Annual Financial Statements for the year ended 30 June 2016

Mkhondo Local Municipality

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Auditor General: Sibusiso Mkhondo
Mkhondo Local Municipality

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a GRAP Standard or where offsetting reflects the substance of the transaction or other event.

1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Item
Trees in a plantation
Useful life
Indefinite

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
• use in the production or supply of goods or services or for
• administrative purposes, or
• sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Mphahlele Business Unit

Accounting Policies for the year ended 30 June 2016

1.4 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

- An asset is identifiable if it either:
is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so, or
arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

1.6 Intangible assets

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of their ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Item	Average useful life
Land	Indefinite
Buildings	2 - 50 years
Plant and machinery	2 - 15 years
Furniture and fixtures	2 - 10 years
Transport assets	3 - 15 years
Electricity equipment	30 - 45 years
Electricity cables	50 years
Electricity poles	30 years
Roads	10 - 50 years
Road furniture	7 - 50 years
Street lights	25 years
Sewer equipment	10 - 50 years
Storm waters	20 - 50 years
Water end equipment	8 - 75 years
Water reticulation	40 - 50 years
Furniture and office equipment	2 - 10 years
Office machinery and equipment	2 - 15 years
Infrastructure assets	5 years
Work in progress	Not depreciated

The useful lives of items of property, plant and equipment have been assessed as follows:

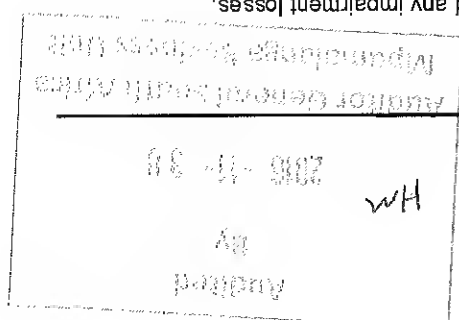
Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.5 Property, plant and equipment (continued)

Accounting Policies for the year ended 30 June 2016

Annual Financial Statements for the year ended 30 June 2016

Mkhondo Local Municipality



Accounting Policies for the year ended 30 June 2016

1.6 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

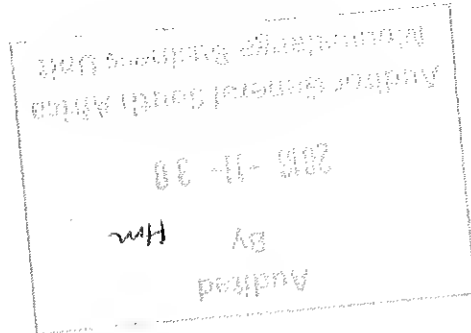
An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets. Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.7 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessional loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

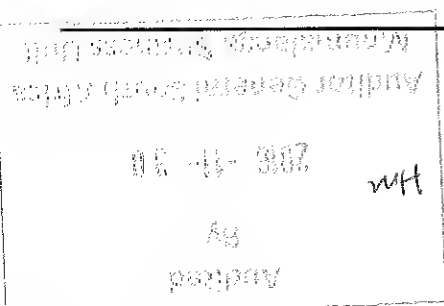
- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

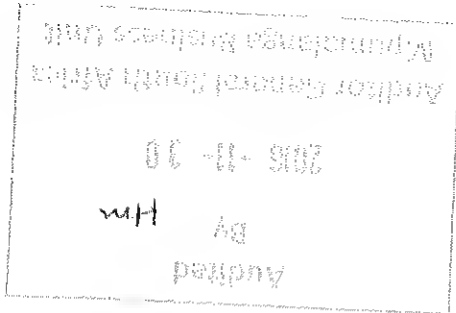
A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.





1.7 Financial Instruments (continued)

Accounting Policies for the year ended 30 June 2016

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies for the year ended 30 June 2016

1.7 Financial Instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Fixed Deposit	Financial asset measured at fair value
Collective Investment Scheme	Financial asset measured at fair value
Listed Equity	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Financial Liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

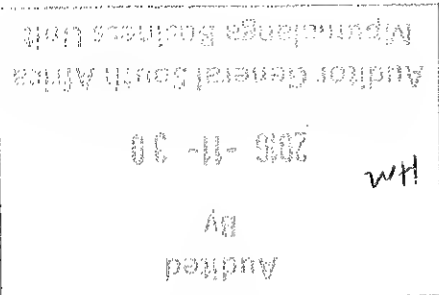
Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its cost value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at cost.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.



Accounting Policies for the year ended 30 June 2016

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value;
- Financial instruments at amortised cost;
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

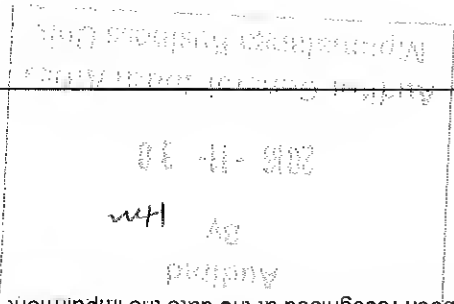
The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

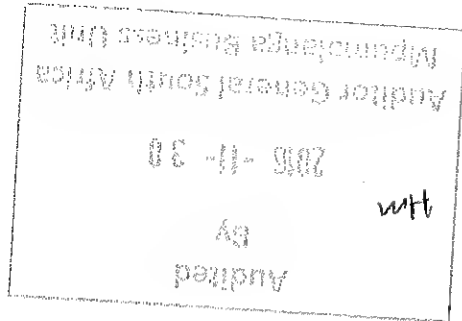
Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:





If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial Instruments (continued)

Accounting Policies for the year ended 30 June 2016

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

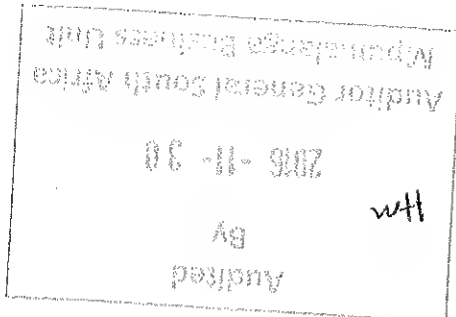
Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.



Accounting Policies for the year ended 30 June 2016

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.9 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

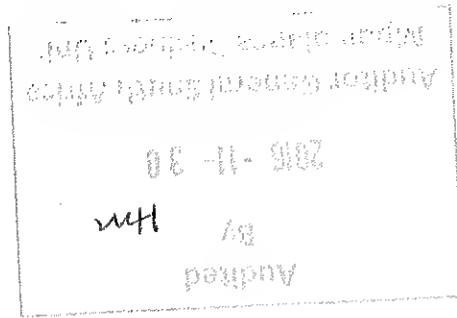
Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.



The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Discount rate

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Basis for estimates of future cash flows

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Value in use

1.10 Impairment of cash-generating assets (continued)

Accounting Policies for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
 • the future cash inflows used to determine the assets or cash-generating unit's value in use; and
 • the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same, asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

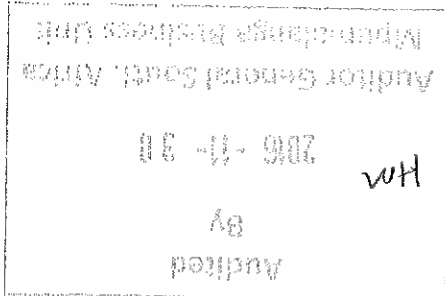
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



Accounting Policies for the year ended 30 June 2016

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies for the year ended 30 June 2016

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

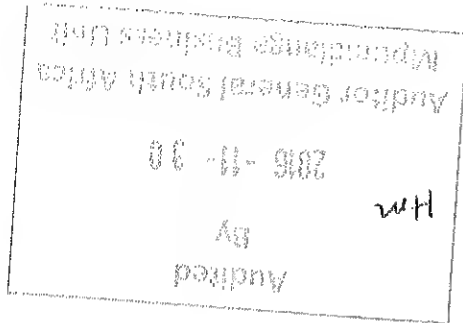
1.11 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follows: [Specify criteria]



Accounting Policies for the year ended 30 June 2016

1.12 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations,

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

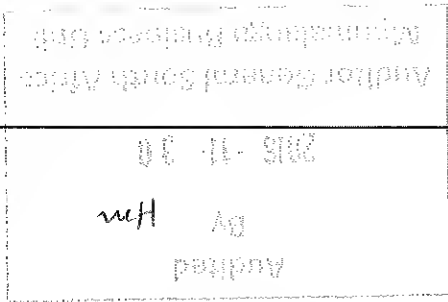
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.



Accounting Policies for the year ended 30 June 2016

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

1.12 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

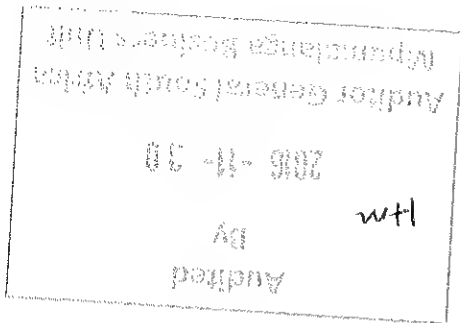
Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.



The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly; plus any liability that may arise as a result of a minimum funding requirement

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Post-employment benefits: Defined benefit plans

1.12 Employee benefits (continued)

Accounting Policies for the year ended 30 June 2016

Annual Financial Statements for the year ended 30 June 2016

Audited

By

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Auditor General South Africa

Municipality of Grahamstown

Accounting Policies for the year ended 30 June 2016

1.12 Employee benefits (continued)

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations (sometimes known as the accrued benefit method pro-rated on service or as the benefit/yet-to-accrue method) and the related current service cost. The Projected Unit Credit Method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service), until the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

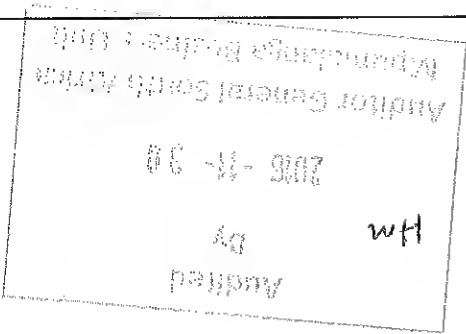
The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



Accounting Policies for the year ended 30 June 2016

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

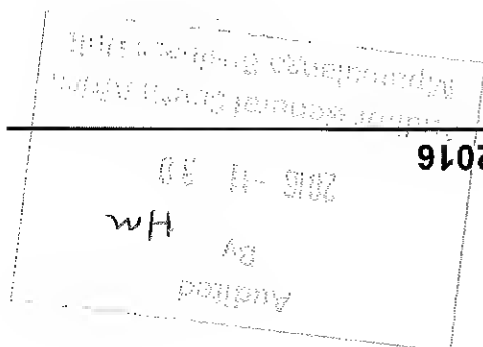
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.



Accounting Policies for the year ended 30 June 2016

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

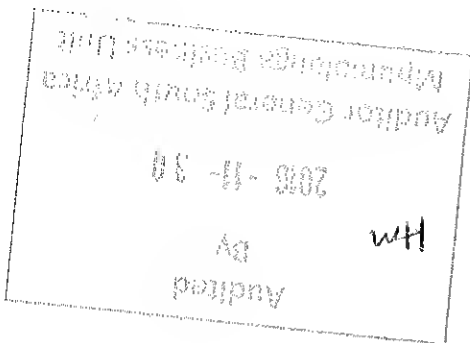
The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgment. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- breaches or delinquencies in interest and capital repayments by the debtor;
- of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.



Accounting Policies for the year ended 30 June 2016

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

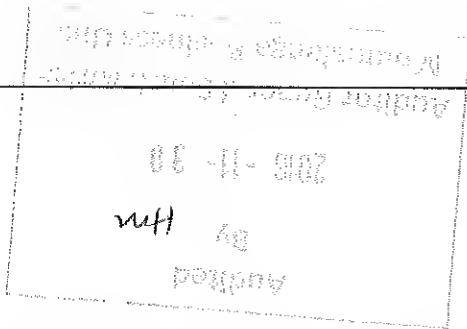
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners. Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor. Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

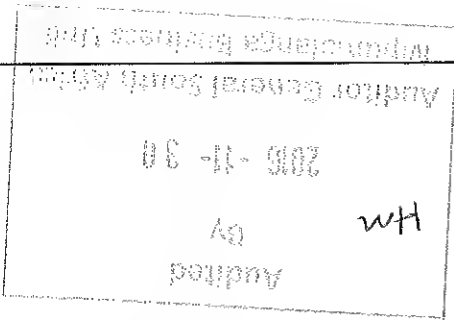
Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange. Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality. Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

A taxable event is the event that the government, legislature or other authority has determined will be subject to taxation. Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.



Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Fines

Transferred assets are measured at their fair value as at the date of acquisition.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transfers

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Taxes

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Measurement

1.15 Revenue from non-exchange transactions (continued)

Accounting Policies for the year ended 30 June 2016

Annual Financial Statements for the year ended 30 June 2016

Mkhondo Local Municipality

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By
2016-11-30

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies for the year ended 30 June 2016

1.15 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind are not recognised.

Property rates

Revenue from property rates is calculated from the date when the legal entitlement to this revenue arises and is recognised when invoiced. Collection charges are recognised when such amounts are legally enforceable and invoiced. Penalty interest on unpaid rates is recognised on a time proportion basis. A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

Government Grants

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

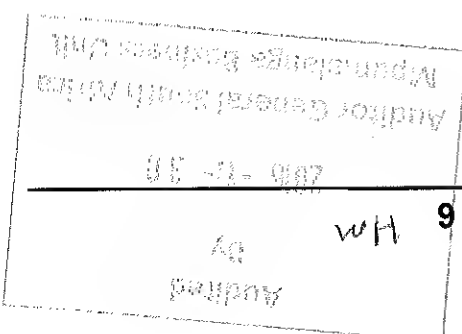
1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



Accounting Policies for the year ended 30 June 2016

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.24 Grants-in-aid

Mkhondo local municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, Mkhondo local municipality does not:

- receive any goods or services directly in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period during which the events giving rise to the transfer occurred.

1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the Statement of Financial Position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.26 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.27 Value-Added Tax

Mkhondo local municipality accounts for value-added tax (VAT) on the payment basis.

1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

Accounting Policies for the year ended 30 June 2016

1.28 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

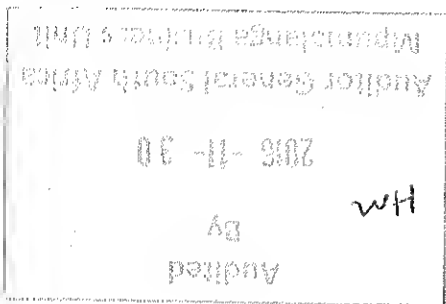
1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	8,541	8,171
Bank balances	3,555,899	1,807,729
Short-term deposits	461,575	336,467
Bank overdraft	-	-
	4,026,015	2,152,367

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Baa2/P-2

The municipality had the following bank accounts

Account number / description	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Cheque	3,369,728	939,146	3,017,479	3,555,899	1,797,391	2,960,363	Account - 82013126356		
First National Bank - Fixed deposit - 62254274732	32,891	119,078	3,389,281	32,891	119,078	3,389,281	First National Bank - Public sector - 62242238534		
First National Bank - Call	-	10,338	41,718	-	10,338	41,718	First National Bank - Call		
Account - 740280175876	-	-	17,461,237	-	-	17,461,237	First National Bank - Call		
First National Bank - Call	428,685	217,389	1,639,959	428,685	217,389	1,639,959	Account - 62016967351		
Total	3,831,304	1,285,951	25,549,674	4,017,475	2,144,196	25,492,558			

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by
Hm
2016-11-30
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Mphahlele Business Unit

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

3. Consumer debtors

	2016	2015
Gross balances		
Rates	44,688,319	39,362,276
Electricity	27,880,560	25,988,581
Water	28,760,915	22,774,397
Sewerage	19,882,983	16,982,615
Refuse	32,148,991	26,934,101
Other	43,368,456	30,744,640
	196,730,224	162,786,610

Less: Allowance for impairment

Rates	(38,130,358)	(33,805,444)
Electricity	(19,215,927)	(18,340,369)
Water	(25,456,525)	(20,105,840)
Sewerage	(17,902,684)	(15,227,641)
Refuse	(30,262,682)	(25,116,788)
Other	(37,436,545)	(26,542,911)
	(168,404,721)	(139,138,993)

Net balance		
Rates	6,557,961	5,556,832
Electricity	8,664,633	7,648,212
Water	3,304,390	2,668,557
Sewerage	1,980,299	1,754,974
Refuse	1,886,309	1,817,313
Other	5,931,911	4,201,729
	28,325,503	23,647,617

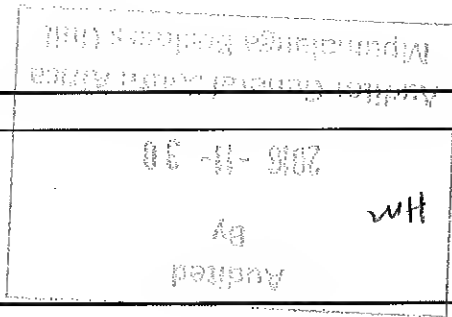
Included in above is receivables from exchange transactions

Electricity	8,664,633	7,648,212
Water	3,304,390	2,668,557
Sewerage	1,980,299	1,754,974
Refuse	1,886,309	1,817,313
Other	5,931,911	4,201,729
	21,767,542	18,090,785

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	6,557,961	5,556,832
	6,557,961	5,556,832

Net balance	28,325,503	23,647,617
Rates		
Current (0 - 30 days)	1,950,777	1,250,547
31 - 60 days	520,458	888,985
61 - 90 days	401,998	490,063
Over 90 days	3,684,728	2,927,237
	6,557,961	5,556,832



Mkhondo Local Municipality

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Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

3. Consumer debtors (continued)

Electricity	Current (0 -30 days)	31 - 60 days	61 - 90 days	Over 90 days		
	3,898,063	577,091	410,416	2,869,139		
	2,772,920	1,408,774	597,379			7,648,212
Water	Current (0 -30 days)	31 - 60 days	61 - 90 days	Over 90 days		
	772,864	203,192	153,746	2,174,588		
	446,276	294,835	247,220	1,680,226		
						2,668,557
Sewerage	Current (0 -30 days)	31 - 60 days	61 - 90 days	Over 90 days		
	485,083	130,784	106,258	1,258,174		
	263,082	221,074	135,185	1,135,833		
						1,754,974
Refuse	Current (0 -30 days)	31 - 60 days	61 - 90 days	Over 90 days		
	294,410	96,106	81,627	1,414,166		
	171,856	136,212	97,936	1,411,309		
						1,817,313
Other	Current (0 -30 days)	31 - 60 days	61 - 90 days	Over 90 days		
	1,398,399	344,884	277,228	3,911,602		
	895,228	523,553	315,335	2,467,613		
						4,201,729
Reconciliation of allowance for impairment						
Balance at beginning of the year						
(139,138,993) (114,064,056)						
(29,265,728) (25,074,937)						
Contributions to allowance						
(168,404,721) (139,138,993)						
Fair value of consumer debtors						
Consumer debtors						
28,325,503						
23,647,617						
						23,647,617

As of 30 June 2016, consumer debtors of R 168,404,720 (2015: R 139,138,992) were impaired and provided for. The amount of the provision was R 29,265,728 as of 30 June 2016 (2015: R 25,074,937).

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016 2015

3. Consumer debtors (continued)

The carrying amount of consumer debtors are denominated in the following currencies:

Rand 23,647,619 28,325,503

4. Inventories

Consumable stores 9,073,179 10,878,928
Water 277,451 127,687

9,350,630 11,006,615

Carrying value of inventories carried at fair value less costs to sell

9,350,630 11,006,615

Inventories recognised as an expense during the year

- (2,316)

A net inventory (loss)/gain of -R3,641,777 (2015: R1,634,138) was realised. There was an inventory (loss) in consumable stores of (R3,641,777) - (2015: gain of R1,636,454) and a inventory gain of R149,763- ((2015: loss R2,316) in water inventory.

5. Receivables from non-exchange transactions

Fines 1,048,875 740,067

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 9,214,090 (2015: R 6,308,186) were impaired and provided for.

The amount of the provision was R 2,905,904 as of 30 June 2016 (2015: R 2,963,138).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance (6,308,184) (3,345,046)
Provision for impairment (2,905,904) (2,963,138)

(9,214,088) (6,308,184)

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 30).

6. Receivables from exchange transactions

Deposits 93,298 93,298
Sundry Debtors 2,463,889 4,308,796

2,557,187 4,402,094

Credit quality of trade and other receivables

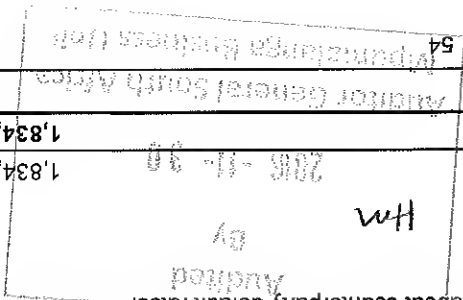
The credit quality of trade and other receivables that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)

Baa2 1,834,997 2,794,521

2,794,521 2,794,521



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

6. Receivables from exchange transactions (continued)

Fair value of trade and other receivables

Trade and other receivables

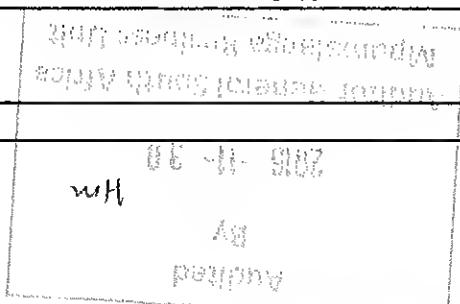
1,834,997 2,794,521

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 1,834,997 (2015: R 2,973,681) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2016		2015	
	Cost / Accumulated depreciation and impairment	Carrying value	Cost / Accumulated depreciation and impairment	Carrying value
3 months past due	1,834,997	2,794,521		
7. VAT receivable				
SARS - VAT	14,253,837	24,725,118	14,253,837	24,725,118
8. Biological assets				



Reconciliation of biological assets - 2016

Cost / Accumulated depreciation and impairment	Carrying value	Cost / Accumulated depreciation and impairment	Carrying value
72,264,809	-	72,264,809	70,794,896
72,264,809	-	72,264,809	70,794,896
Total	-	72,264,809	70,794,896

Reconciliation of biological assets - 2015

Opening balance	Gains or (losses) arising from changes in fair value	Total
70,794,896	1,469,913	72,264,809
70,794,896	1,469,913	72,264,809
Total		

Trees in a plantation forest

78,745,390 (7,950,494) 70,794,896

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

8. Biological assets (continued)

Non - Financial information

Quantities of each consumable biological asset

Trees in a plantation forest	72,264,809	70,794,896
Mature biological assets		
Next fair valuation on the plantation will be due on 30 June 2017.		
Total population of plantation area:		
- Wattle: 19% (503.5ha)		
- Gum: 41% (1098.6ha)		
- Pine: 40% (1046.5ha)		
Trees in a plantation forest	72,264,809	70,794,896

Commitments

The municipality does not have any commitment relating to the development or future acquisitions of biological assets.

Pledged and restriction

No biological assets were pledged as security. Furthermore no title has been restricted which will affect the carrying amount.

Restrictions imposed by regulations

No restrictions imposed by regulations on the capacity to sell biological assets for the year under review.

Other information

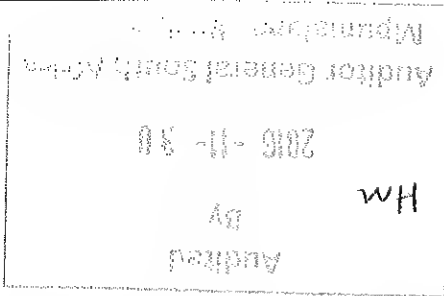
Methods and assumptions used in determining fair value

Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. Historical sales volumes of the Mkhondo area, as well as FES data for 2015 and 2016 were used to determine MAI (gum:15 tons/ha/year, Pine: 12 tons/ha/year, Wattle: 10 tons/ha/year).

Furthermore the municipality used an expert to calculate the fair value of biological assets as at 30 June 2016.

Financial risk strategy

The entity is exposed to financial risks arising from changes in market prices for timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

9. Investment property

	2016	2015
Cost / Accumulated Carrying value		
Investment property	32,229,300	18,309,600
Cost / Accumulated Carrying value		
Investment property	32,229,300	18,309,600
Valuation depreciation		
Investment property	(14,701,400)	(14,154,700)
Total	32,229,300	18,309,600

Reconciliation of investment property - 2016

Investment property	Opening balance	Transfers received	Impairments	Depreciation	Total
	18,309,600	38,000	(273,000)	(546,700)	17,527,900
	18,309,600	38,000	(273,000)	(546,700)	17,527,900

Reconciliation of investment property - 2015

Investment property	Opening balance	Depreciation	Total
	18,949,100	(639,500)	18,309,600
	18,949,100	(639,500)	18,309,600

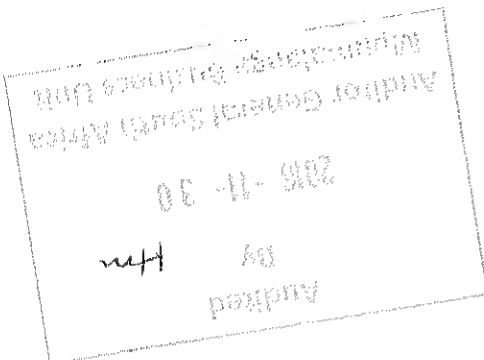
Additional disclosure relating to investment property

Investment property Type

- Agricultural
- Business
- Residential
- Vacant land

2016	2015
650,000.00	650,000.00
20,288,060	20,288,060
11,366,240	11,366,240
160,000.00	160,000.00

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



Mkhondo Local Municipality Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2015 2016

10. Property, plant and equipment

	2016	2015
Cost / Accumulated Carrying value	Cost / Accumulated Carrying value	Cost / Accumulated Carrying value
Valuation	depreciation and impairment	depreciation and impairment
Land	35,083,859	46,627,243
Buildings	58,222,671	31,921,152
Infrastructure	2,141,552,672	1,033,199,785
Community	34,430,198	25,346,287
Other property, plant and equipment	51,507,843	13,985,491
Work in progress	238,706,327	96,672,099
Total	2,559,503,570 (1,186,868,169) 1,372,635,401	2,352,285,215 (1,117,137,514) 1,235,147,701

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Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	46,627,243	-	(1,208,196)	(38,000)	-	(10,297,188)	-	-	35,083,859
Buildings	19,316,796	-	(42,015)	-	23,776,744	4,171,994	(955,822)	(14,883)	46,252,814
Infrastructure	1,033,199,785	986,396	-	-	43,965,888	3,675,122	(65,245,930)	-	1,016,581,261
Community	25,346,287	-	-	-	-	-	(628,683)	-	24,717,604
Other property, plant and equipment	13,985,491	1,871,416	(28,524)	-	-	366,208	(4,913,531)	12,476	11,293,536
Work in progress	96,672,099	209,776,960	-	-	(67,742,632)	-	-	-	238,706,327
	1,235,147,701	212,634,672	(1,278,735)	(38,000)	-	(2,083,864)	(71,743,966)	(2,407)	1,372,635,401

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	46,627,243	-	-	-	-	-	-	46,627,243
Buildings	19,970,580	-	-	-	-	(653,784)	-	19,316,796
Infrastructure	1,040,832,516	-	-	51,669,438	5,045,182	(64,268,205)	(79,146)	1,033,199,785
Community	8,584,887	-	-	17,332,308	-	(570,908)	-	25,346,287
Other property, plant and equipment	17,185,134	3,779,715	(490,526)	-	-	(5,831,957)	(656,875)	13,985,491
Work in progress	76,918,877	88,754,968	-	(69,001,746)	-	-	-	96,672,099
	1,210,119,237	92,534,683	(490,526)	-	5,045,182	(71,324,854)	(736,021)	1,235,147,701

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	2016	2015
Opening balance	96,672,099	96,672,099
Additions/capital expenditure	209,776,860	209,776,860
Transferred to completed items	(67,742,632)	(67,742,632)
Total	238,706,327	238,706,327

Reconciliation of Work-in-Progress 2015

	Included within infrastructure	Included within community	Total
Opening balance	59,586,569	17,332,308	76,918,877
Additions/capital expenditure	88,754,968	-	88,754,968
Transferred to completed items	(51,669,438)	(17,332,308)	(69,001,746)
Total	96,672,099	-	96,672,099

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. No property, plant and equipment pledged as security.

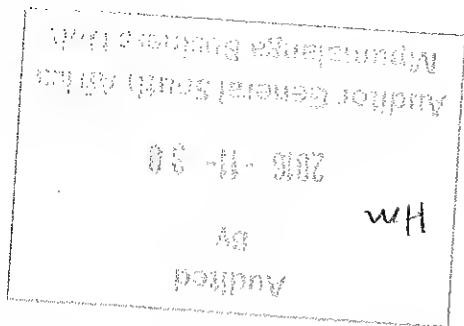
11. Intangible assets

	2016	2015
Cost / Accumulated amortisation and impairment	167,250	167,250
Valuation	(8,363)	(8,363)
Carrying value	158,887	158,887
Cost / Accumulated amortisation and impairment	167,250	167,250
Valuation	-	-
Carrying value	-	-

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	167,250	(8,363)	158,887
Computer software, other	-	167,250	(8,363)	158,887

Reconciliation of intangible assets - 2015



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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12. Other financial assets

Designated at fair value

Sanlam Ltd

The following ordinary share were acquired on the 23 March 2001:

Account Number:

C0000164698

C0000612270

C0000141498

Total

Closing share price - (2015)

R66,34

These shares were disposed off during the year.

Listed Shares - Old Mutual: 13093141

This is a Old Mutual Wealth Life wrapped Investment. Commencement date is 25 June

2002 with an initial amount of R3 539 867,76.

Fixed Deposit - ABSA: 5008322939

This is a fixed term investment account effective from 24 September 1993 on a three

month reinvestment period. Interest rate is 5 % per annum.

Fixed Deposit - ABSA: 2056165426

This is a fixed term investment account effective from 09 March 2004 on a three month

reinvestment period. Interest rate is 4,74% per annum.

Old Mutual Ltd

The following ordinary share were acquired on the 23 February 2003:

Account Number:

U0777133016

U0777133059

Total

Closing share price - (2015)

R38,7

The investments were disposed off during the year.

Total other financial assets

157,503

17,505,552

Non-current assets

Designated at held for trading and available for sale

157,503

17,505,552

There are no other financial assets pledged as collateral.

13. Consumer deposits

Electricity, Water and Zero consumption

3,271,552

3,150,537

14. Operating lease liability

Non-current liabilities

Current liabilities

(5,275)

(56,734)

(63,185)

(56,734)

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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14. Operating lease liability (continued)

The Municipality entered into a Lease Agreement with Alasco Properties for Office space for property ERF 374, Kempville, otherwise known as 35 Mohammedia Road, Kempville on 25 August 2014. The Lease is for a period of 36 months terminating on 24 August 2017. The Lease rental is for R72 000 per month excluding VAT with an escalation of 7% per annum after every 12 months. months.

15. Other financial liabilities

At amortised cost	
DBSA Streets Ethanda	286,621
The initial capital amount on this loan is R 1,099,477.42. This loan carries an interest rate of 14% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 31 March 2018.	403,248
DBSA Electricity Ethanda	-
The initial capital amount on this loan is R 4,162,979.77. This loan carries an interest rate of 12% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 30th of September 2015.	356,946
DBSA Electricity Ext 7 & 9	674,673
The initial capital amount on this loan is R 3,089,958.68. This loan carries an interest rate of 15% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1997 and matures on 30th of September 2017.	1,049,357

The municipality have not made any pledges against the above loans.

Non-current liabilities

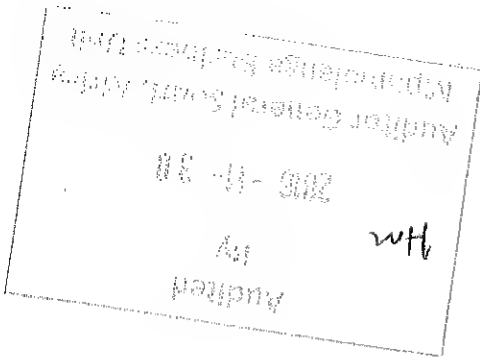
At amortised cost

380,425	1,335,680
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Current liabilities

At amortised cost

580,869	473,871
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Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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16. Provisions

Reconciliation of provisions - 2016

Opening	12,111,956	4,847,858	16,959,814
Additions		4,847,858	
Total	12,111,956	4,847,858	16,959,814
Environmental rehabilitation provision			

Reconciliation of provisions - 2015

Opening	11,474,111	637,845	12,111,956
Additions		637,845	
Total	11,474,111	637,845	12,111,956
Environmental rehabilitation provision			

Non-current liabilities

16,959,814	11,850,247
-	261,709
16,959,814	12,111,956

Environmental rehabilitation provision

Financial assumptions used

Unit costs

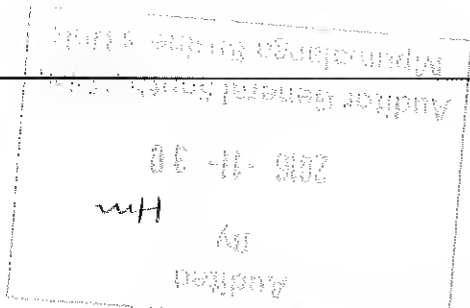
Unit costs for each of the cost elements are obtained annually by means of commercial quotation.

CPI

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the General Landfill Closure Costing Model (GLCCM) is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last three months amounted to 6,2064%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used as published on the RSA Retail Savings Bond website www.rsaretailbonds.gov.za. The rate most consistent with the remaining life of the landfill published on 30 June was used. In the case of this landfill the rate associated with the maximum available period of 10 years was used, i.e. 2.25% above CPI.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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17. Employee benefit obligation

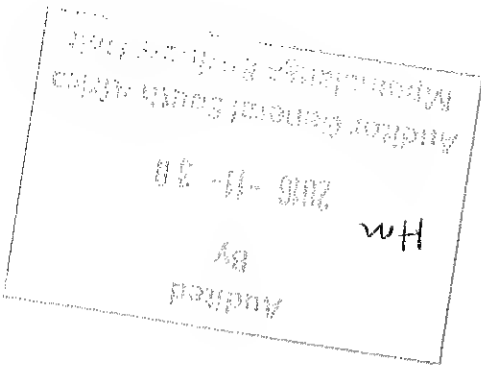
Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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17. Employee benefit obligation (continued)

Contribution rates based on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members. Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

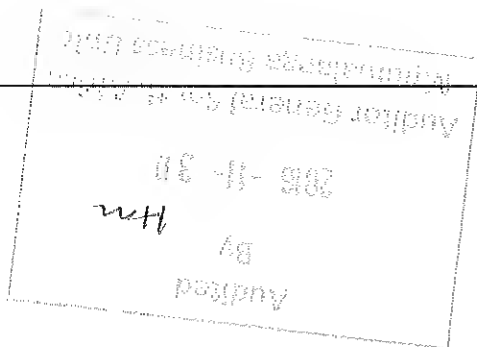
Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service Liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element. It should be noted that, in cases where the employer continues to pay a health care subsidy to the widower and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25. Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.



Mkhondo Local Municipality

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17. Employee benefit obligation (continued)

Sensitivity Analysis

7.1 Introduction

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

7.2 Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation;

(ii) A 1% increase and decrease in the discount rate;

(iii) A one-year age reduction in the assumed rates of post-retirement mortality;

(iv) A one-year decrease in the assumed average retirement age; and

(v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Table 7.1 summarises the results of the sensitivity analysis.

Table 7.1 : Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	%Change
Central Assumptions	1%	3,626	8,993	12,619	5%
Health care inflation	-1%	4,136	9,114	13,250	-10%
Discount Rate	1%	4,416	9,751	14,168	12%
	-1%	4,317	10,170	14,487	14%
Post-retirement mortality	-1 yr	3,758	9,340	13,310	4%
Average retirement age	-1 yr	3,877	8,993	12,870	2%
Continuation of membership at retirement	-10%	2,562	8,993	11,555	-8%

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 13% higher than that shown.

Table 7.2 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2016.

Assumption	Change	Current-service Cost	Interest Cost	Total	%
change	-				
Central Assumptions	139,600	1,172,300	1,311,900	1,311,900	
Health care inflation	+1%	169,700	1,324,700	1,494,400	6%
Discount rate	+1%	115,600	1,163,600	1,279,200	-2%
	-1%	170,200	1,175,600	1,345,800	3%
Post-retirement mortality -1 yr	145,100	1,222,900	1,368,000	1,368,000	-4%
Average retirement age -1 yr	153,100	1,200,900	1,354,000	1,354,000	3%
Continuation of membership at retirement	-10%	100,100	1,086,900	1,187,000	-11%

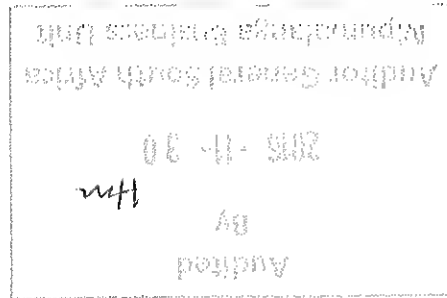
2016-11-30

Audited

by

Mr

Auditor General South Africa
Mphahlele Mphahlele



Assumption	Change	Current-service Cost	Interest Cost	Total	%
change Central Assumptions	+1%	143,900	1,112,500	1,256,400	
Health care inflation	+1%	163,800	1,169,800	1,333,600	6%
Discount rate	+1%	120,200	1,105,400	1,225,600	-2%
Post-retirement mortality - 1 yr	-10%	149,200	1,156,100	1,305,300	-4%
Average retirement age - 1 yr	-10%	154,000	1,135,300	1,289,300	3%
Continuation of membership at retirement	-10%	102,500	1,015,700	1,118,200	-11%

Table 7.3 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2017.

These figures were derived at the last valuation and were also presented in that report.

17. Employee benefit obligation (continued)

Notes to the Annual Financial Statements for the year ended 30 June 2016

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Annual Financial Statements for the year ended 30 June 2016

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Mkhondo Local Municipality

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17. Employee benefit obligation (continued)

Long service awards

Introduction
In estimating the unfunded liability for LSA of Mkhondo Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used.

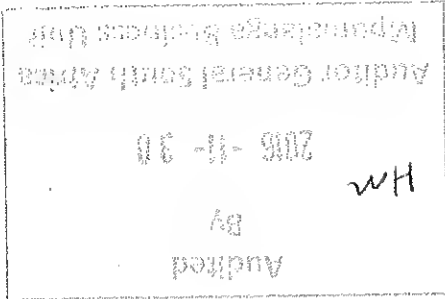
Consequently, a discount rate of 8.65% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.65%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions. General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.39% was obtained from the differential between market yields on index-linked bonds (1.65%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.65) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.65\%-0.50\%)/(1+1.65\%))-1$.

Thus, a general salary inflation rate of 7.39% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.17%.

It has been assumed that the next salary increase will take place on 1 July 2017.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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17. Employee benefit obligation (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value	Present value of the defined benefit obligation- Post Employment Medical Benefit - wholly unfunded	Present value of the long service awards - wholly unfunded
(12,619,145)	(13,859,200)	(7,382,739)
(22,035,844)	(21,241,939)	(22,035,844)
Non-current liabilities	Current liabilities	
(20,131,232)	(1,110,707)	(22,035,844)
(21,241,939)	(21,241,939)	(21,241,939)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	Net expense recognised in the statement of financial performance	
21,241,939	793,905	22,035,844
19,207,426	2,034,513	21,241,939
Net expense recognised in the statement of financial performance	Current service cost	Interest cost
835,281	1,058,687	1,765,987
1,575,494	920,062	920,707
(1,296,969)	(1,110,707)	(1,296,969)
2,034,513	793,905	2,034,513

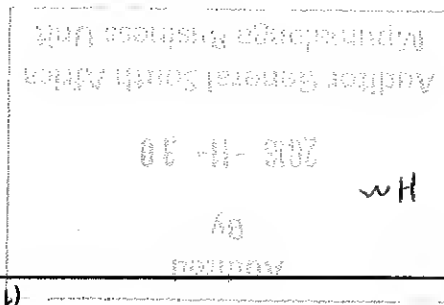
Post Employment Medical Benefits

The amounts recognised in the statement of financial position is as follows:

Present value of defined benefit obligation- wholly funded	(12,619,145)	(13,859,200)
Non current liabilities	(11,813,501)	(13,100,236)
Current liabilities	(805,644)	(758,964)
(12,619,145)	(13,859,200)	

Net expense recognised in the statement of financial performance

Current service cost	Interest cost	Actuarial (gains)/losses	Expected Employer Benefit Payments
151,490	1,172,256	578,157	(707,460)
139,637	1,792,256	(758,964)	(1,097,601)
(1,239,327)			



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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17. Employee benefit obligation (continued)

Long Service Awards

The amounts recognised in the statement of financial position are as follows:

Present value of defined benefit obligation - wholly funded	
2016	2015
(9,416,699)	(7,382,739)
Current liabilities	
(1,160,403)	(351,743)
Non current liabilities	
(8,256,296)	(7,030,996)
(9,416,699)	(7,382,739)
Net expense recognised in the statement of financial performance	
919,050	683,791
593,731	500,080
872,922	342,550
(351,743)	(689,509)
2,033,960	936,912

Key assumptions used

Assumptions used at the reporting date:

- Long service awards - Discount rate
- Long service awards - General Salary Inflation (long-term)
- Long service awards - Net effective discount rate
- Post retirement benefit plan - Discount rates used
- Post retirement benefit plan - Health care cost inflation rate
- Post retirement benefit plan - Net effective discount rate

Key Demographic Assumptions

Long service award

Assumption

Average retirement age	
Mortality during employment	65
SA 85-90	2015
Value	2016
Male	Female
16%	24%
12%	18%
8%	10%
4%	4%
2%	2%
Age	55
20	40
30	50
40	55

Withdrawal from service (sample annual rates)

Post retirement benefit plan

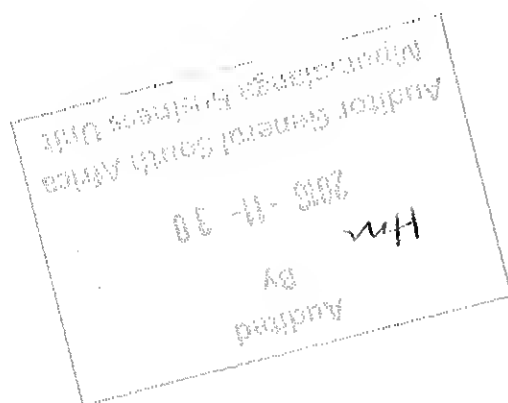
Assumption

- Average retirement age
- Pre-retirement mortality
- Post-retirement mortality
- Proportion married at retirement
- Continuation of membership at retirement
- Proportion of eligible non-members joining the scheme by retirement

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand		2016	2015
18. Payables from exchange transactions			
13th Cheque accrual	3,617,012	3,192,673	
Accrued leave pay	12,981,020	9,700,432	
Debtors with negative balances	3,214,199	3,066,517	
Sundry creditors	21,548,277	15,788,355	
Trade payables	133,602,054	118,180,523	
	174,962,562	149,928,500	



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2016	2015
Local government sector education and training authority	518,556	333,005

Movement during the year

	2016	2015
Balance at the beginning of the year	333,005	4,927,440
Additions during the period	206,003,975	91,657,114
Income recognition during the year	(205,818,424)	(96,251,549)
	518,556	333,005

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

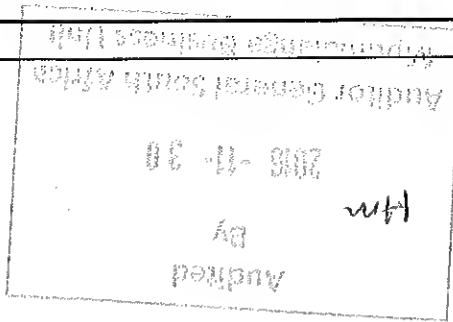
See note 24 for reconciliation of grants from National/Provincial Government.

20. Service charges

	2016	2015
Sale of electricity	89,281,225	88,121,428
Sale of water	15,090,592	11,890,499
Sewerage and sanitation charges	7,702,908	6,945,308
Refuse removal	8,710,661	7,774,493
	120,785,386	114,731,724

21. Other income

	2016	2015
Administration costs	20,272	20,089
Advertising	81,908	198,349
Building and clearance certificates	24,225	25,799
Cemetery fees	131,886	156,572
Commission income	196,906	174,623
Escorting fees	1,125,545	1,508,290
Fund raising	150	-
Other revenue	4,123,092	1,786,061
Insurance payouts received	-	143,851
Photo copies	563,236	231,042
Sale of refuse bins	269,761	807
Sub-division of stands	59,836	28,489
Sundry income	87,200	1,101,702
Timber sales	17,421,308	14,931,106
	24,105,325	20,304,780



Mkhondo Local Municipality

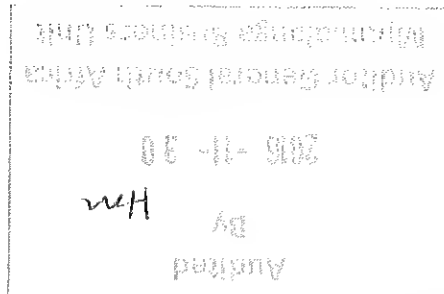
Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand		2016	2015
22. Investment revenue			
Dividend received		-	77,790
Listed financial assets - Local		-	77,790
Interest received			
Bank		1,028,297	1,343,117
Interest charged on trade and other receivables		10,659,449	9,067,981
		11,687,746	10,411,098
23. Property rates			
Rates received			
Residential		17,511,472	16,225,626
Commercial		10,069,592	8,919,218
State		6,180,042	5,682,234
Small holdings and farms		7,356,161	7,277,200
Property rates 1		227,987	228,347
Less: Income forgone		(7,341,774)	(8,949,464)
		34,003,480	31,383,161

Valuations			
Residential		2,581,461,403	2,381,424,700
Commercial		944,277,930	843,880,900
State		428,729,760	387,956,700
Municipal		346,549,400	427,757,287
Small holdings and farms		3,910,291,258	2,460,213,460
Vacant Land		200,824,718	43,516,500
Other		6,925,000	110,520,100
		8,419,059,465	6,655,269,627

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied on a monthly basis.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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24. Government grants and subsidies

Operating grants		2016	2015
Equitable share		153,190,000	127,313,000
Municipal systems improvement grant		930,000	934,000
Finance management grant		1,675,000	1,600,000
Local government sector education and training authority		151,917	121,773
Expanded public works programme incentive grant		2,348,000	2,912,883
Integrated national electrification programme		10,000,000	4,306,635
Capital grants		168,294,917	137,188,291
Municipal infrastructure grant		81,668,000	86,376,324
Human Settlement Grant		100,000,000	-
GSDM Grant		9,367,163	-
		191,035,163	86,376,324
		359,330,080	223,564,615

Included in above are the following grants and subsidies received:

Conditional and Unconditional

Equitable Share		2016	2015
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.			
Municipal infrastructure grant (MIG)			
Balance unspent at beginning of year		-	3,611,324
Current-year receipts		81,668,000	82,765,000
Conditions met - transferred to revenue		(81,668,000)	(86,376,324)
		-	-

Conditions still to be met - remain liabilities (see note 19).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which are yet to be completed. The conditions of the projects are directly in-line with the DORA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

An amount of R81,668,000 (2015- R86,376,342) of the Municipal Infrastructure Grant was expended on Infrastructure capital projects.

Municipal systems improvement grant (MSIG)

Current-year receipts	930,000
Conditions met - transferred to revenue	(934,000)
	-

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

The Municipal Systems Improvement Grant is a conditional Grant directed to selected Local Municipalities. The purpose of the Grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

An amount of R930,000 (2015- R934,000) of the Municipal Improvement System Grant was expended during the year.

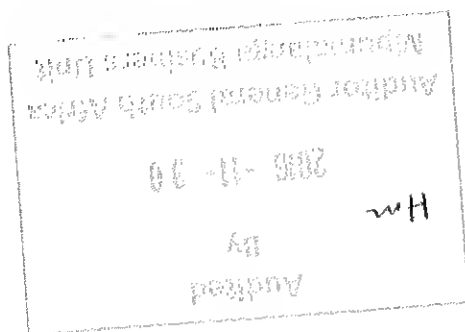
Financial management grant (FMG)

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,675,000)	(1,600,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

An amount of R1,675,000 (2015 - R1,600,000) was used during the period.



Mkhondo Local Municipality

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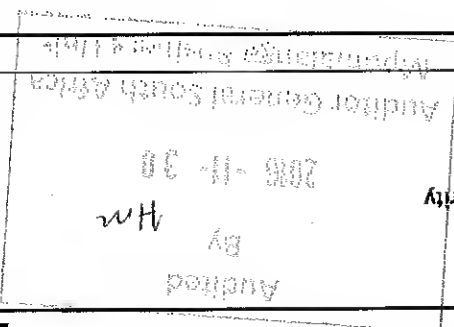
Notes to the Annual Financial Statements for the year ended 30 June 2016

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2016	2015
333,005	333,005
618,556	337,469
(151,918)	153,114
(121,772)	301,663

24. Government grants and subsidies (continued)

Local government sector education and training authority



Conditions still to be met - remain liabilities (see note 19).

The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was re-certified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was re-certified by the Minister for the National Skills Development Strategy III period (2011-2016).

The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy III (NSDS III) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce. Provide explanations of conditions still to be met and other relevant information.

An amount of R151 918 (2015 - R121,772) was expended during the year.

Integrated national electrification programme

Balance unspent at beginning of year	-	1,006,570
Current-year receipts	10,000,000	3,300,000
Conditions met - transferred to revenue	(10,000,000)	(4,306,570)

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

An amount of R10 000 000 (2015 - R4,306,635) was expended during the period.

Expanded public works programme incentive grant

Balance unspent at beginning of year	-	7,883
Current-year receipts	2,348,000	2,905,000
Conditions met - transferred to revenue	(2,348,000)	(2,912,883)

Conditions still to be met - remain liabilities (see note 19).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

An amount of R2,348,000 (R2,912,883) was used during the period.

Human Settlement Grant

Current-year receipts	100,000,000	-
Conditions met - transferred to revenue	(100,000,000)	-

Mkhondo Local Municipality

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24. Government grants and subsidies (continued)

The Human Settlement Grant was provided by the Mphumalanga Provincial Government through its department for Human Settlement. The purpose of the Grant was for the provision of Bulk Water infrastructure pipes in the Mkhondo Local Municipality. The Grant was fully utilised during the year.

Conditions still to be met - remain liabilities (see note 19):

GSDM Grant

Current-year receipts

Conditions met - transferred to revenue

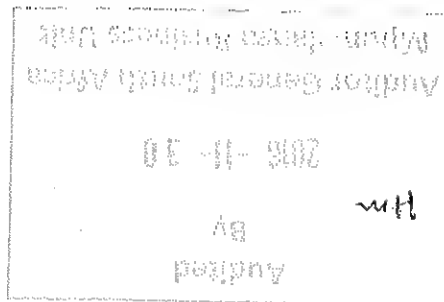
(9,367,163)

(9,367,163)

25. Public contributions and donations

Public contributions and donations 1

26. Total Revenue



Service charges
Agency services
Licences and permits
Rental income
Other income
Interest received
Dividends received
Property rates
Government grants & subsidies
Public contributions and donations
Fines, Penalties and Forfeits
Gains on disposal of assets

120,785,386
9,743,260
31,508
758,391
24,105,325
11,687,746
-
34,003,480
359,330,080
12,642,184
3,779,036
151,579
-
114,731,724
9,177,281
77,154
968,442
20,304,780
10,411,098
77,790
31,383,181
223,564,815
5,045,182
4,469,644
-

The amount included in revenue arising from exchanges of goods or services

are as follows:
Service charges
Agency services
Licences and permits
Rental income
Other income
Interest received - investment
Dividends received
120,785,386
9,743,260
31,508
758,391
24,105,325
11,687,746
-
167,111,616
155,748,249

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue
Property rates
Transfer revenue
Government grants & subsidies
Public contributions and donations
Fines, Penalties and Forfeits
34,003,480
31,383,161
223,564,615
5,045,182
4,469,644
409,754,780
264,462,602

Mkhondo Local Municipality

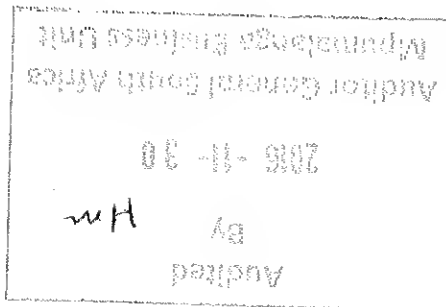
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27. Employee related costs

	2016	2015
Basic	82,549,895	70,576,995
Bonus	7,385,339	6,002,046
Housing benefits and allowances	2,138,798	1,272,464
Long-service awards	103,659	97,764
Medical aid contributions	2,586,090	3,071,825
Overtime payments	7,367,470	7,688,208
Pension fund contributions	15,069,287	12,917,706
Standby	5,300,948	3,831,652
Shift allowance	553,153	372,466
Employee benefit plan	2,033,960	1,575,494
Travel allowance	2,932,459	2,907,610
Unemployment insurance fund contributions	720,370	631,302
	128,741,428	110,945,532



Additional disclosures
Listed below is employee related costs paid to key employees. The remuneration is included in the employee costs disclosed above.

Remuneration of municipal manager

Annual Remuneration	868,860	634,325
Performance Bonuses	67,278	-
Travel, motor car, accommodation, subsistence and other allowances	241,531	548,093
Contributions to UIF, Medical and Pension Funds	117,524	128,736
	1,295,193	1,311,154

The Municipal Manager Mr. M.J.S. Mabuzza served for the full period up to 30 June 2016.

Remuneration of Chief finance officer

Annual Remuneration	685,906	413,910
Performance bonus	91,133	-
Travel, motor car, accommodation, subsistence and other allowances	210,158	460,393
Contributions to UIF, Medical and Pension Funds	109,705	93,829
	1,096,902	968,132

The Chief Financial Officer Mr. T.S. Thobela served for the full period to 30 June 2016.

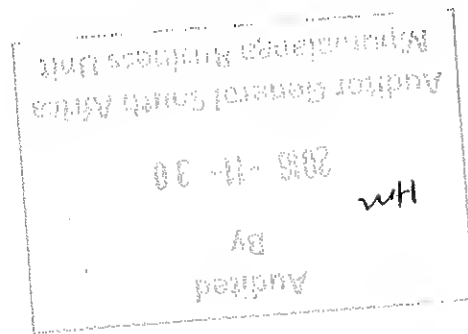
General Manager - Planning and Development

Annual Remuneration	912,445	293,880
Travel, motor car, accommodation, subsistence and other allowances	293,739	160,145
Performance Bonuses	70,163	-
Contributions to UIF, Medical and Pension Funds	154,244	62,716
	1,430,591	516,741

The General Manager for Planning and Development, Mr. A.N. Mahlangu served for the full term to 30 June 2016.

General manager - Corporate services

Annual Remuneration	666,451	504,736
Travel, motor car, accommodation, subsistence and other allowances	175,131	294,285
Performance Bonuses	54,680	-
Contributions to UIF, Medical and Pension Funds	145,357	137,376
	1,041,619	936,401



The General Manager for Corporate Services Mr. M.J. Mkhonza served for the full period up to 30 June 2016.

27. Employee related costs (continued)

2016	1,041,619
2015	936,397

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Mkhondo Local Municipality

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2016 2015

27. Employee related costs (continued)

General manager - Technical services

Annual Remuneration	197,371	-
Travel, motor car, accommodation, subsistence and other allowances	88,000	-
Contributions to Uf, Medical and Pension Funds	42,927	-
	328,298	-

The General Manager for Technical Services Ms L.T. Mathabula served for six months from January 2016 up to 30 June 2016.

General manager - Technical services

Annual Remuneration	290,769	-
Travel, motor car, accommodation, subsistence and other allowances	180,223	-
Contributions to Uf, Medical and Pension Funds	57,353	-
	528,345	-

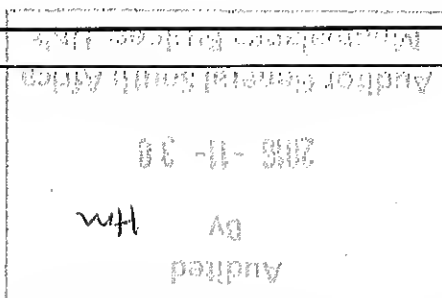
Mr S.J. Mabuza served as the General Manager for Technical Services for seven months from July 2014 to January 2015

General manager - Community Services

Annual Remuneration	504,736	-
Travel, motor car, accommodation, subsistence and other allowances	288,858	-
Performance Bonuses	54,680	-
Contributions to Uf, Medical and Pension Funds	157,597	-
	1,037,159	941,553

The General Manager for Community Services Mr. A.W. Nkonyane served for the full period up to 30 June 2016

28. Remuneration of councillors



Executive Mayor	784,814	740,925
Speaker	635,632	601,676
Councillors salaries	10,941,939	10,795,242
Councillors pension contribution	724,089	702,445
	13,086,474	12,840,288

Additional information

Please refer to note 39 for full detail packages of council members

29. Depreciation and amortisation

Property, plant and equipment	71,752,328	71,324,222
Investment property	546,700	639,500
	72,299,028	71,963,722

Depreciation is provided on all assets in use by the municipality. Assets that have been completely depreciated but are still in use are assets that have been used for its economic lifespan of the said asset. Due to budget constraints the municipality had limited funding to replace the said assets. The municipality did review its asset management policy to ensure that the useful life of assets per category are a true reflection of its use.

Mkhondo Local Municipality

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30. Impairment Loss

Impairments	2016	2015
Property, plant and equipment	275,406	736,021
Other receivables from non-exchange revenue	2,905,904	2,963,139

An amendedment to IGRAP 1, require the Mkhondo Local Municipality to account for Traffic Fine Income on the accrual basis.

The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.

Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

However the probability was assessed and it was found that the current year cash received from fines related to less than 10% of fines issued. Therefore the receivable created was impaired.

Total impairment losses (recognised) reversed	3,181,310	3,699,160
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31. Finance costs

Trade and other payables	7,660,673	6,961,372
Current borrowings	190,412	323,750
Other interest paid	4,847,858	242,944
	12,698,943	7,528,066

32. Debt impairment

Contributions to debt impairment provision	29,265,729	25,074,935
	29,265,729	25,074,935

33. Bulk purchases

Electricity	98,758,626	80,811,493
Water	2,538,431	2,054,025
	101,297,057	82,865,518

34. Transfers and Subsidies

Other subsidies	1,990,225	3,567,092
Equitable share	1,939,527	2,912,883
Expanded Public Works Programme Incentive Grant	3,929,752	6,479,975

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35. General expenses

Advertising	821,676	440,792
Auditors remuneration	3,550,697	4,735,539
Bank charges	1,100,947	999,278
Cleaning	2,803,199	2,349,947
Consulting and professional fees	25,525,027	24,207,164
Consumables	1,848,422	3,068,894
Donations	13,368,438	630,534
Entertainment	548,683	630,534
Insurance	5,732,733	5,040,696
Community development and training	1,490,023	258,714
Election expenses	58,977	970,205
IT expenses	-	581,120
Motor vehicle expenses	63,600	135,100
Placement fees	42,829	9,213
Productions	82,765	44,618
Printing and stationery	3,091,417	3,177,143
Protective clothing	2,566,009	2,776,708
Research and development costs	-	50,828
Security	15,272,123	12,155,089
Staff welfare	35,451	5,400
Subscriptions and membership fees	1,935,283	1,522,515
Telephone and fax	2,443,043	2,607,888
Subsistence and travel	3,298,490	3,312,706
Training	1,423,001	1,581,448
Electricity	552,014	977,230
Water	226,415	1,045,900
Other expenses	64,848	-
	87,946,110	72,684,665

36. Fair value adjustments

Biological assets - (Fair value model)	1,469,913	(7,950,494)
Other financial assets	(406,987)	1,068,722
• Other financial assets (Designated as at FV through P&L)		
	1,062,926	(6,883,772)

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37. Net Cash flows from operating activities			
Surplus/(deficit)		83,734,336	(14,336,031)
Adjustments for:			
Depreciation and amortisation		72,299,028	71,963,722
Sale of assets and liabilities		(151,579)	485,091
Inventory Loss/ (Gains)		3,641,777	(1,634,138)
Fair value adjustments		(1,062,926)	6,883,772
Impairment deficit		3,181,310	3,699,160
Debt impairment		29,265,729	25,074,935
Movements in operating lease assets and accruals		9,346,684	5,181,143
Movements in provisions		2,083,864	(5,045,182)
Donations		(1,985,791)	(4,177,621)
Changes in working capital:			
Inventories		(1,844,908)	(2,234,386)
Receivables from exchange transactions		(33,943,615)	(30,223,951)
Consumer debtors		(3,214,712)	(3,703,206)
Other receivables from non-exchange transactions		21,329,140	36,677,314
Payables from exchange transactions		10,471,281	(13,581,662)
VAT		185,551	(4,594,435)
Unspent conditional grants and receipts		121,015	95,905
Consumer deposits			
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> <p>Audited by HM 2016-11-30 Auditor General South Africa Mphahlele Bhebeke (Pty) Ltd</p> </div>			
		197,152,451	70,587,164

38. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	-	157,503	157,503
Trade and other receivables from exchange transactions	-	2,557,187	2,557,187
Other receivables from non-exchange transactions	-	1,048,875	1,048,875
Consumer debtors	-	28,325,503	28,325,503
Cash and cash equivalents	4,026,015	-	4,026,015
VAT	-	14,253,837	14,253,837
	4,026,015	46,342,905	50,368,920

Financial liabilities

	At amortised cost	Total
Other financial liabilities	961,295	961,295
Trade and other payables from exchange transactions	174,962,562	174,962,562
Consumer Deposits	3,271,552	3,271,552
Unspent conditional grants	518,556	518,556
Operating Lease Liability	63,185	63,185
	179,777,150	179,777,150

2015

Financial assets

Mkhondo Local Municipality

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Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Other financial assets	-	17,505,552	17,505,552
Trade and other receivables from exchange transactions	-	4,402,094	4,402,094
Other receivables from non-exchange transactions	-	740,067	740,067
Consumer debtors	-	23,647,617	23,647,617
Cash and cash equivalents	2,152,367	-	2,152,367
VAT	-	24,725,118	24,725,118
	2,152,367	71,020,448	73,172,815

Financial liabilities

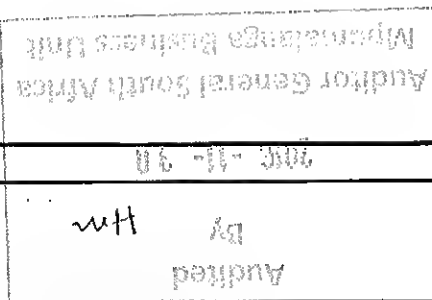
Other financial liabilities	1,809,551	1,809,551	1,809,551
Trade and other payables from exchange transactions	149,928,500	149,928,500	149,928,500
Consumer deposits	3,150,537	3,150,537	3,150,537
Unspent conditional grants	333,005	333,005	333,005
	155,221,593	155,221,593	155,221,593

39. Auditors' remuneration

	Audited	By	4m	3,550,697	4,735,539
			2016-11-30	3,550,697	4,735,539

40. Commitments

Authorised capital expenditure



Already contracted for but not provided for
• Property, plant and equipment

239,963,113	307,514,704
239,963,113	307,514,704

Total capital commitments

Already contracted for but not provided for

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

4,422,350	4,354,788
2,663,207	6,703,326

- within one year

- in second to fifth year inclusive

7,085,557	11,058,114
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Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years. No contingent rent is payable.

Mkhondo Local Municipality

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41. Contingencies

The Municipality has the following the pending Legal cases that could all result in possible outflow of economic resources.
Contingencies as at 30 June 2016

NAME OF CLAIMANT	SUMMARY OF CASE AND PROGRESS	RESPONSIBLE LAW FIRM OR APPOINTED FIRM	FILE NUMBER	AMOUNT CLAIMED	COMMENTS
1 Bareki Manageent Consulting (Pty) Ltd	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done	TNM Kgomo & Associates Inc.	19148/2011	Claim A R 761 383.10 Claim B R 1 169 904.48	There is currently no Trial date in this matter. The parties are still to convene a pre-trial conference
2 Owethu Mkhondo Trading CC	The Plaintiff is suing the Municipality for R 21 277 570.63 for alleged breach of contract	TNM Kgomo & Associates Attorneys	46047/2014	R 21 277 570.63	The matter is set down for the 13 th of June 2016. A pre-trial conference was held on this matter on the 11 th of May 2016, to which the parties are still not in agreement with some of the contents of the minutes
3 Pamaja Technologies	The plaintiff is suing the Municipality the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TNM Kgomo Incorporated Attorneys	15597/11	R 1 396 370.67	The Municipality was requested to favour the attorneys with an agreement between COGTA and Mr Khoza in order to determine whether the plaintiff has a claim against the Municipality or not, which agreement was received and forwarded to counsel for his perusal and advice.

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41. Contingencies (continued)

4	Urban Economic Development	Plaintiff filed a claim against the municipality for services rendered at the request of the municipality. The claim follows the request by the municipality to incorporate Sector plans into the IDP.	TNM Kgomo Incorporated Attorneys	3728/2011	R 127 082.46	The Municipality Attorneys filed an exception and the Plaintiff never responded, instead the Plaintiff's Attorney advised the Municipality Attorneys that they do not have further instructions. The Municipality Attorneys proceeded to send a letter to the plaintiff's Attorneys notifying them that the Municipality cannot pend its file indefinitely and requested that they advise if they have any instructions. The Municipality Attorneys are intending on applying for dismissal of the matter by setting it down for trial to bring it to finality.
5	Busamasi Investments CC.	A claim was instituted by the plaintiff following an alleged breach of contract by the municipality.	TNM Kgomo Incorporated	47483/2011	R 2 465 000.00	The Plaintiff has not responded to any of the Municipality pleadings, in effort to make sure that the matter is ready for trial. The Municipality attorneys proceeded to conduct an ITC and the report indicated that the close corporation had been deregistered. Furthermore that the plaintiffs Mr Masinga and Mr Busane were contacted, they informed that they had instructed their attorney to withdraw the matter.
6	Rethuseng Live Line Services CC.	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R 3 249 043.64 from the second defendant.	TNM Kgomo Incorporated Attorneys.	40779/2014	R 3 249 043.64	The matter has been set down for trial for the 29 th of August 2016, and a pre-trial conference has been arranged for the 13 th of June 2016.

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7	SAMWU obo Mbatha	The Municipality is instituting litigation against its employee following awards by the SALGBC. The Municipality intends, through this process, to review the award given by the SALGBC.	MT Silinda & Associates Attorneys	JR349/2015	R100 000.00	The Legal Services Division together with Human Resource Division met with the attorneys to ascertain the prospects of success.
8	IMATU obo Mduli & others	The Municipality is instituting litigation against its employees following awards by the SALGBC. The Municipality intends, through this process, to review the award given by SALGBC.	MT Silinda & Associates	JR340/2015	R100 000.00	A senior Counsel was briefed to file the necessary documents with the Labour Court. The Municipality has applied for review of the decision of the SALGBC Panelist who ruled against condonation being granted and against the unfair labour practice ruling. The case has been assigned to an Attorney and the file has been handed to him for consideration and application. Consultation with the Attorneys was done 04 February 2015. The review application has been filed in the Labour Court. Now awaiting for a court date.
9	LP De Beer	L.P De Beer has served Summons against the Municipality stating that he has incurred damages due to a motor vehicle accident	Mohlala Attorneys	20751/2015	R470 000.00	The Municipality had despatched an original signed discovery affidavit for attorney to serve and file on the 07/06/2016. Once same attended too he will prepare for pre-trial questions with Counsel.
10	IMATU obo and others	IMATU initiated action (Ex parte application) against the municipality for failing to give effect and or implement an Award that was issued by the Bargaining Council in favour of the members. Mr Mahlangu, the former Municipal Manager, is due to appear before the Labour Court on a contempt charge.	MT Silinda & Associates	J 199/2015	R50 000.00	A Court Order was issued staying the implementation or enforcement of the Contempt matter pending the finalisation of the review application.

Mkhondo Local Municipality

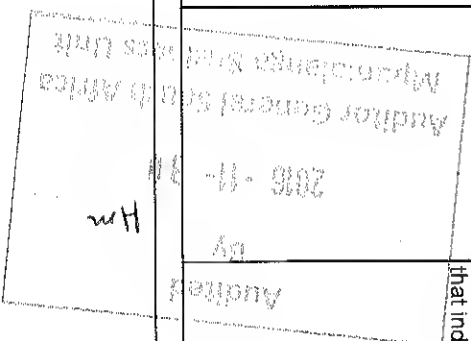
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41. Contingencies (continued)

11	Andries Wilhelmus Jacobus Vorster	Summons were served by the Plaintiff who served as a Council member of the Defendant, seeking Relief in the amount of R25 000, as the Plaintiff is claiming that he is entitled to receive a once-off gratuity equal to three Months pensionable salary	Mohlala Attorneys	367/2015	R25 000.00	The legal division discussed the matter with HR division, it surfaced that the plaintiff's claim is misdirected. The Department that promised the once-off payment is the National Department of Co-operative Governance.
12	Bicacon (Pty) Ltd	The Municipality received summons from Bicacon (Pty) Ltd seeking relief in the amount of R 4 228 240.57, as the plaintiffs are claiming that the Mkhondo Local Municipality unlawfully terminated their contract, the plaintiffs were appointed to provide Engineering Consulting Services for the construction of Driefontein to Lswape and Hartebeesfontein Water Bulkline by Mega, which ceded their rights to the Municipality.	Mohlala Attorneys	87/155/15	R5 772 853.66	Attorney applied for Notice of exception to be granted and same was granted as prayed for on the 04/5/2016. Plaintiff has since been served with notice and court order
13	Victor Wilhelm Christian Mohle	The Municipality received summons from the Plaintiff's Attorney, in that his client suffered damages in the amount of R 9430.00 after he had been involved in an accident, furthermore that this is due to the failure of maintaining road surfaces properly or to issue appropriate warning signs or put up any cautionary indications of the change in the road conditions or the location of the speed hump which it is stated that it makes driving in Kotze street, Piet Relief dangerous to drive on.	A.S Botha Prokureurs	2/2016	R9430.00	The Municipality appointed an Attorney who has since served the Plaintiff's Attorney with Notice of Intention to defend, as there is a sign that indicates a speed hump in Kotze Street.



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41. Contingencies (continued)

14	Letsoalo GC	Abseondment				R250 000.00	In March 2016 an arbitration award concerning an employee who took the Municipality to the SALGBC for an unfair labour practice was issued
15	Phada trading & projects (PTY) LTD Repairs Maintenance of HDV'S & Yellow Metal Fleet	The Municipality received notice and summons claiming the R736 975.99 for services rendered as per SLA.	A S Botha Prokureurs	2016		R736 975.99	The Municipality appointed an Attorney who has since served the Plaintiff's Attorney with Notice of Intention to defend. Attorney has further been requested to provide us with legal opinion on the prospects of the case.

Contingencies as at 30 June 2015

No	Description/Citation of parties	Nature of details of case	Citation at court	Amount of dispute	Current status
1	Andries Wilhelmus Jacobs Vorster vs Mkhondo Municipality	The Plaintiff is suing the Municipality for a once off gratuity equal to 3 months pensionable salary	367/2015 at Piet Retief Magistrates court	R25,000.00	Pending
2.	Lourens Peter De Beer vs Mkhondo Municipality	The Plaintiff is suing the Municipality for damages sustained on the Plaintiff's motor vehicle as a result of road and storm water drain in which the plaintiff was travelling on.	20751/15 before the high court of South Africa (Gauteng Division, Pretoria)	R470,000.00	Pending
3	Mkhondo Municipality vs Busamasi Investments	Plaintiff is suing for services rendered and retention money allegedly owed by the Municipality	47483/2008	R558,843.62	Pending
4	Mkhondo Municipality vs Pojoma Technologies	Plaintiff suing for alleged breach of contract	15597/11	R1,396,370.67	Pending
5	Mkhondo Municipality vs Urban Economic Development	Plaintiff suing for alleged breach of contract	4548/2012	R127,082.46	Pending
6	Mkhondo Municipality vs Bareki Management Consulting	Plaintiff suing for amount outstanding and breach of contract	19148/11	R1,169,904.48	Pending

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41. Contingencies (continued)

7	Mkhondo Municipality vs Telkom SA	Plaintiff suing for alleged damages to telecommunication lines	74/2014	R15,386.73	Municipality lost the case in court and is considering an appeal
8	Mkhondo Municipality vs Owethu	Plaintiff is suing for alleged breach of contract	46047/2014	R21,277,570.63	Pending
9	Mkhondo Municipality vs Rethusenglive	The Plaintiff is suing complete work and services rendered	40779/14	R7,339,871.52	Pending
10	Mkhondo Municipality vs Yellow stone Timber	Plaintiff is suing for alleged electricity over charged	64697/14	R918,920.00	Municipality lost the case in court and an appeal is pending
11	Mkhondo Municipality vs Midway Tyres	Plaintiff is suing for alleged breach of contract	254/2015	R18,095.17	Defendant offered R9,198.77
12	Mkhondo Municipality vs LTE Consulting (Pty) Limited	A dispute between the Municipality and the claimant following their appointment as consulting engineers. The claimant demands that the Municipality pays for the services it received.	Attorneys not allocated yet	Not known	The matter is scheduled to be attended as soon as the Municipality finalises the appointment of attorneys.
13	Mkhondo Municipality vs African Directory Services (Pty) Ltd	African Directory Services (Pvt) Ltd instituted a legal proceeding by way of a letter of demand to the Municipality after the Municipality failed to pay the said services whilst services were rendered by the service provider on instructions by the Municipality. The said letter of demand was served demanding an amount of R95,691.60	Attorneys not allocated yet	R95,691.60	The matter is likely to be settled out of court.

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Relationships	<p>Mr M.J.S Mabuza (Accounting Officer)</p> <p>Mr M.J. Mkhonza(Corporate Services)</p> <p>Mr A.N. Mahlangu (Planning and Development)</p> <p>Mr W.T. Nkonyane(Community Services)</p> <p>Mr S. Thobela(CFO)</p> <p>Employee related costs</p> <p>National Treasury</p> <p>Development Bank of South Africa</p> <p>Ms L.T Mathebula</p>
Refer to accounting officer's report note	<p>Section 56 Manager</p> <p>Section 56 Manager</p> <p>Section 56 Manager</p> <p>Section 56 Manager</p> <p>Note 27 - Payments</p> <p>State controlling entity</p> <p>Section 56 Manager</p>

Please refer to note 28 for council packages in aggregate The aggregate remuneration to councillors on note 28 includes Wards employees who are not separately listed below.

Subtotal	7,104,424	792,984	470,515	979,503	2,741,757	12,089,183
Clir. B.H. Mithshai (Mayor)	438,032	20,868	50,522	86,412	188,979	784,813
Clir. N. Dholuv	367,388	20,868	3,929	65,882	159,586	851,663
Clir. P.C. Langa	358,458	20,868	49,250	51,274	155,756	635,833
Clir. V. Nkosi	313,857	20,868	50,501	66,785	197,509	649,520
Clir. Z. Mthimkhulu	313,740	20,868	50,501	67,623	155,614	808,346
Clir. T. Khumalo	214,853	20,868	8,054	-	73,304	317,079
Clir. L. Mkwanaenzi	214,807	20,868	8,054	-	74,126	317,855
Clir. S. Kamubue	193,703	20,868	8,084	27,802	-	250,457
Clir. V. Masuku	191,812	20,868	8,054	27,802	1,886	250,422
Clir. M. Yende	187,308	20,868	8,054	26,721	73,304	318,255
Clir. Z. Mntsi	186,771	20,868	8,054	26,721	73,304	315,718
Clir. M. Nkosi	186,771	20,868	8,054	26,721	73,304	315,718
Clir. M. Ntuli	186,771	20,868	8,054	26,721	73,304	315,718
Clir. K. Masondo	176,558	20,868	8,054	46,647	600	252,727
Clir. D. T'wala	174,827	20,868	8,054	38,692	74,275	316,716
Clir. H. Mincube	165,977	20,868	8,054	-	57,120	252,019
Clir. S. Methula	165,686	20,868	8,054	-	57,120	251,728
Clir. B. Shabangu	165,686	20,868	8,054	-	57,120	251,728
Clir. N. Mashuku	165,585	20,868	8,054	-	57,120	251,627
Clir. T. Nhleko	160,601	20,868	8,054	5,024	59,006	253,553
Clir. S. Mathebula	144,811	20,868	8,054	19,879	57,120	250,732
Clir. L. Bosch	144,788	20,868	8,054	19,901	57,120	250,731
Clir. T. Mafuyeka	144,788	20,868	8,054	19,901	57,120	250,731
Clir. B. Vilakazi	144,635	20,868	8,054	20,051	57,120	250,728
Clir. M. Phakathi	144,039	20,868	8,054	20,597	57,120	250,678
Clir. C. Blos	144,039	20,868	8,054	20,597	57,120	250,678
Clir. S. Kunene	144,039	20,868	8,054	20,597	57,120	250,678
Clir. B. Mabuzza	144,054	20,868	8,054	20,597	59,006	252,579
Clir. C. Mshali	144,054	20,868	8,054	20,597	59,006	252,579
Clir. S. Mshali	144,039	20,868	8,054	20,597	57,120	250,678
Clir. S. Ntshale	144,039	20,868	8,054	20,597	57,120	250,678
Clir. N. Ntshengethwa	144,054	20,868	8,054	20,597	57,120	250,678
Clir. G. Nkosi	144,054	20,868	8,054	20,597	60,885	254,458
Clir. T. Nkosi	144,039	20,868	8,054	20,597	60,296	253,854
Clir. J. Phakathi	144,054	20,868	8,054	20,597	59,006	252,579
Clir. S. Sangweni	144,039	20,868	8,054	20,597	61,781	255,339
Clir. A. Thwala	144,039	20,868	8,054	20,597	57,120	250,678
Clir. J. Brussow	123,607	20,868	8,054	41,183	57,120	250,832

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016
2015

42. Related parties (continued)

7,104,424 792,984 470,515 979,503 2,741,757 12,089,183

Councillors Remuneration
Annual Remuneration
Cellphone Allowance
Housing Allowance
Contributions to pension & Medical
Travelling Allowance
Total

Cllr. B.H. Mtshali (Mayor)
Cllr. P.C. Langa (Speaker)
Cllr. V.D. Nkosi (MMC -
Technical)
Cllr. Z.E. Mthimkhulu (Chief
Whip)

Cllr. N.C. Ndlovu
Cllr. M.L. Yende
Cllr. M.D. Ntuli
Cllr. D.M. Thwala
Cllr. T.E. Khumalo
Cllr. M.O. Nkosi
Cllr. L.V. Mkwanzizi
Cllr. Z.J. Mtshali
Cllr. S.R. Sangweni
Cllr. M.E. Phakathi
Cllr. J.L. Brussow
Cllr. T.S. Nkosi
Cllr. C.G. Mtshali
Cllr. N.B. Masuku
Cllr. J.M. Phakathi
Cllr. G.T. Nkosi
Cllr. S.P. Kunene
Cllr. S.J. Mathula
Cllr. H.A. Mncube
Cllr. S.S. Mathebule
Cllr. S.E. Nhleko
Cllr. A.T. Twala
Cllr. L. Bosch
Cllr. S.N. Kambole
Cllr. K.D. Masondo
Cllr. N.L. Ntshengetwa
Cllr. S.C. Mtshali
Cllr. B.J. Vilakazi
Cllr. V.W. Masuku
Cllr. T.G. Nhleko
Cllr. B.T. Mabuzza
Cllr. B.J. Tshabangu
Cllr. C.F. Biso
Cllr. T.S. Matuyeka
Cllr. P.S. Ntshabathi
Cllr. T.E. Motha
Cllr. H.C. Du Toit

Subtotal
6,414,428 783,420 438,497 995,441 2,683,727 11,315,513

6,414,428 783,420 438,497 995,441 2,683,727 11,315,513

Audited
by HM
2016-11-30
Auditor General South Africa
Mphahlele P. Mphahlele

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

42. Related parties (continued)

Related party balances

Loan accounts - Owning to related parties

Development Bank of South Africa

Local government sector Education and training authority

(961,294)	(1,809,551)
(518,556)	(333,005)

Amounts included in trade receivable regarding related parties

Councillors

49,050	84,734
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The amounts owing to National treasury are unsecured, upon the rollover process the amount owing was ring-fenced through investment accounts.

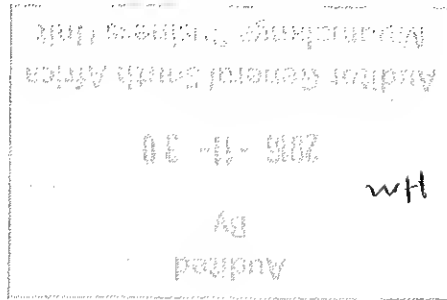
Key management Information

Executive Mayor

Councillors

Cllr. B.H. Mshali
Please refer to the general information page
Mr M.J.S. Mabuza

Municipal Managers



Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

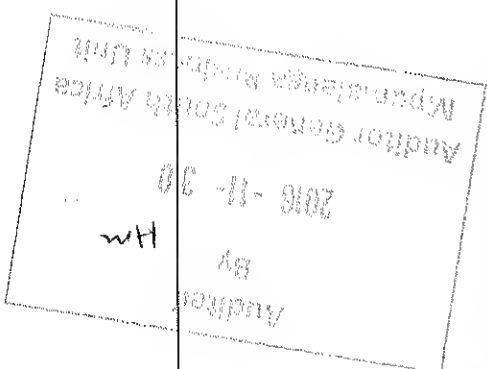
Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

43. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of Financial Position	2015 Restated	2015 Reported	Difference	Reason
Assets				
Current assets				
Cash and cash equivalents	2,152,367.00	2,152,367.00	-	
Consumer debtors	23,647,617.00	23,647,617.00	-	
Inventories	11,006,615.00	11,006,615.00	-	
Receivables from non exchange transact	740,067.00	740,067.00	-	
Receivable from exchange transactions	4,402,094.00	2,794,521.00	1,607,573.00	Income due from TVK received in July 2016 previously omitted.
VAT Receivable	24,725,118.00	24,725,118.00	-	
Total current assets	66,673,878.00	65,066,305.00	1,607,573.00	
Current assets				
Biological assets	70,794,896.00	70,794,896.00	-	
Investment property	18,309,600.00	18,309,600.00	-	
Property, plant and equipment	1,235,147,701.00	1,232,071,183.00	3,076,518.00	Reinstatement of land and correction of depreciation calculations.
Other financial assets	17,505,552.00	17,505,552.00	-	
Total Non current assets	1,341,757,749.00	1,338,681,231.00	3,076,518.00	
Total Assets	1,408,431,627.00	1,403,747,536.00	4,684,091.00	
Liabilities				
Current liabilities				
Consumer deposits	3,150,537.00	3,150,537.00	-	



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

43. Prior period errors (continued)				
Operating Lease liability	56,734.00	-	56,734.00	Recognition of operating lease liability
Other financial liabilities	473,871.00	473,871.00	-	-
Provisions	261,709.00	261,709.00	-	-
Employee benefit obligation	1,110,707.00	1,110,707.00	-	-
Payables from exchange transactions	149,928,499.00	149,928,499.00	-	-
Unsent conditional grants and receipts	333,005.00	333,005.00	-	-
Total current liabilities	155,315,062.00	155,258,328.00	56,734.00	
Non current liabilities				
Other financial liabilities	1,335,680.00	1,335,680.00	-	-
Employee benefit obligation	20,131,232.00	20,131,232.00	-	-
Provisions	11,850,247.00	11,850,247.00	-	-
Total non-current liabilities	33,317,159.00	33,317,159.00	-	-
Total Liabilities	188,632,221.00	188,575,487.00	56,734.00	
Net assets	1,219,799,406.00	1,215,172,049.00	4,627,357.00	
Accumulated surplus	1,219,799,406.00	1,215,172,049.00	4,627,357.00	
Statement of financial performance				
Revenue from exchange transactions	114,731,724.00	114,731,724.00	-	-
Service charges	9,177,261.00	9,177,261.00	-	-
Agency fees	77,154.00	77,154.00	-	-
Licences and permits			-	-

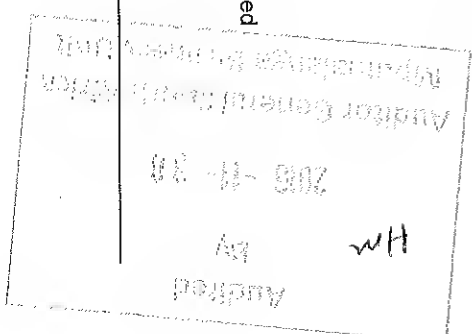
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By
2016-11-30
Auditor General South Africa
Mkhondo Local Municipality

Mkhondo Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

43. Prior period errors (continued)				
Rental Income	968,442.00	968,442.00	-	-
Other income	20,304,780.00	18,697,207.00	1,607,573.00	Accrual of TWK invoices for June 2016 for sale of timber
Interest received	10,411,098.00	10,411,098.00	-	-
Dividends received	77,790.00	77,790.00	-	-
Total revenue from exchange transacti	155,748,249.00	154,140,676.00	1,607,573.00	
Revenue from non exchange transacti				
Property rates	31,383,161.00	31,383,161.00	-	-
Government grants and subsidies	223,564,615.00	223,564,615.00	-	-
Public contributions and donations	5,045,182.00	5,045,182.00	-	-
Fines, penalties and forfeits	4,469,644.00	4,469,644.00	-	-
Total revenue from non exchange tran	264,462,602.00	264,462,602.00	-	
Total revenue	420,210,851.00	418,603,278.00	1,607,573.00	
Expenditure				
Employee related costs	110,945,532.00	112,532,492.00	(1,586,960.00)	Correction of a votes which were incorrectly mapped
Remuneration to councillors	12,840,288.00	12,840,288.00	-	-
Depreciation and amortisation	71,963,722.00	70,685,552.00	1,278,170.00	Depreciation underprovided
Impairment loss	3,699,160.00	2,963,139.00	736,021.00	Additional impairment on assets
Finance costs	7,528,066.00	7,528,066.00	-	-
Lease rentals on operating lease	1,734,002.00	1,677,268.00	56,734.00	Recognition of operating lease liability
Debt impairment	25,074,935.00	25,074,935.00	-	-
Repairs and maintenance	32,996,294.00	31,409,333.00	1,586,961.00	Correction of votes which were incorrectly mapped
Bulk purchases	82,865,518.00	82,865,518.00	-	-
Transfers and subsidies	6,479,975.00	6,479,975.00	-	-



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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43. Prior period errors (continued)				
Loss on disposal of assets	485,091.00	(1,073.00)	486,164.00	Loss on assets destroyed by fire
General expenses	72,684,666.00	72,684,666.00	-	-
Total expenditure	429,297,249.00	426,740,159.00	2,557,090.00	
Operating deficit	(9,086,398.00)	(8,136,881.00)	(949,517.00)	
Fair value adjustments	(6,883,772.00)	(6,883,772.00)	-	-
Inventory losses	1,634,138.00	1,634,138.00	-	-
	(5,249,634.00)	(5,249,634.00)	-	
Deficit for the year	(14,336,032.00)	(13,386,515.00)	(949,517.00)	
Cash flow statement				
Cash flows from operating activities	-	-	-	
Property rates	31,383,162.00	31,154,814.56	228,347.44	Correction of rates which was included under other income.
Sale of goods and services	109,053,779.00	114,695,391.04	(5,641,612.04)	R 5 045 181 relates to correction of donated assets which were erroneously included as a cash flow item. R228,347 relates to rates which were included under other income instead of property rates.
Grants	218,970,179.34	218,970,179.34	-	-
Interest income	1,420,906.69	1,420,906.69	-	-
	360,828,027.03	366,241,291.63	(5,413,264.60)	
Payments				
Employee costs	(119,242,527.00)	(120,829,487.31)	1,586,960.31	Correction of votes incorrectly mapped
Suppliers	(163,470,270.00)	(162,251,394.50)	(1,218,875.50)	Correction of votes incorrectly mapped
Finance costs	(7,528,065.63)	(7,528,065.63)	-	-
	(290,240,862.63)	(290,608,947.44)	368,084.81	
Net cash flow from operating activities	70,587,164.40	75,632,344.19	368,084.81	

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 By
 Auditor

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

43. Prior period errors (continued)

Cash flows from investing activities

Purchase of property, plant and equipment	(92,534,683.00)	(97,579,864.93)	5,045,181.93	Computation error. Donated assets previously included.
Purchase of other financial assets	(186,904.20)	(186,904.20)	-	
Proceeds on sale of PPE	6,067.00	6,067.00	-	
Net cash flow from investing activities	(92,715,520.20)	(97,760,702.13)	5,045,181.93	

Cash flows from financing activities

Repayment of other financial liabilities	(1,220,005.52)	(1,220,005.52)	-	
Net cash flow from financing activities	(1,220,005.52)	(1,220,005.52)	-	

Net increase / (decrease) in cash and cash equivalents	(23,348,363.46)	(23,348,363.46)	-	
Opening cash & cash equivalents	25,500,728.00	25,500,728.00	-	
Cash and cash equivalents at end of year	2,152,364.54	2,152,364.54	-	

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Makhondo Local Municipality

Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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44. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 15, cash and cash equivalents disclosed in note 2, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio.

This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The debt: equity ratio at 2016 and 2015 respectively were as follows: 2016: 16.47%; (2015: 13.98%).

Total borrowings			
Other financial liabilities	15	961,294	1,809,551
Other liabilities		217,811,513	186,822,671
		218,772,807	188,632,222
Less: Cash and cash equivalents	2	4,026,015	2,152,367
		214,746,792	186,479,855
Net debt			
Total equity		1,303,533,740	1,333,616,197
Total capital		1,518,280,532	1,520,096,052

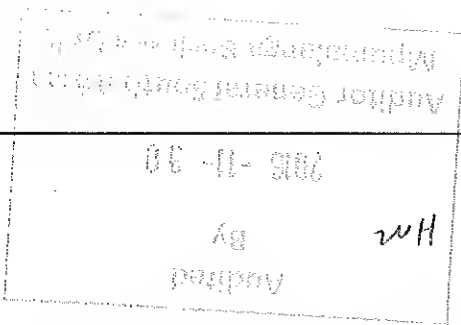
The Gearing ratio of the municipality increased due to an increase in liabilities owed to various suppliers.

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the Municipality's management thereof.

Due to largely "non-trading nature" of activities and the way to which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRSs mainly apply. Generally, financial assets and liabilities are generated by day to day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The internal audit is responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body monitors the effectiveness of internal audit function.



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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2015

44. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates to ensure that cash flow requirements are met.

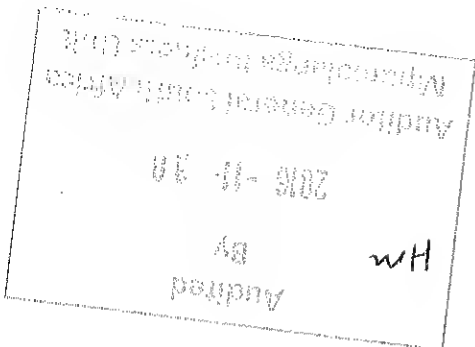
The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	At 30 June 2016				At 30 June 2015			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	580,869	380,425	-	-	473,871	1,335,680	-	-
Trade and other payables	180,776,627	37,034,886	-	-	154,841,192	31,981,479	-	-

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. To decrease interest rate risk exposure, investments are mostly done on a term not longer than six months. The current interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions

Cash flow interest rate risk		Financial instrument				Due in one to two years			
		Current interest rate	Tiered	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years	
Cash in current banking institutions		1.43%		3,555,899	-	-	-	-	
Call investments deposits		5%		461,576	-	-	-	-	
Other financial assets				-	157,503	-	-	-	



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

44. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The Municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Municipality uses its own trading records to assess its major customers. The Municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The Municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an international accredited credit rating agency. The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the Municipality is not exposed to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The Municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The Municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument

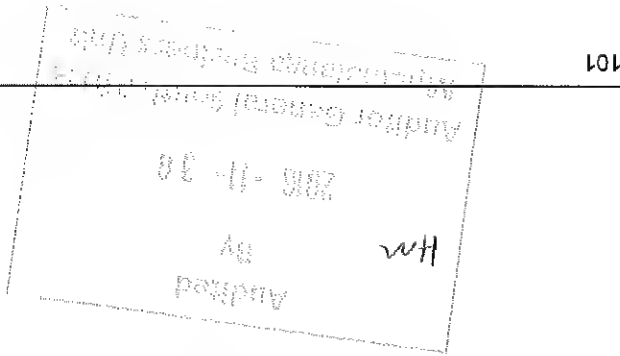
Investments	2016	2015
Receivables from non exchange transactions	1,048,875	740,067
Receivables from exchange transactions	2,557,187	4,402,094
Cash and bank balances	4,026,015	2,152,367
Consumer debtors	28,325,503	23,647,617

Price risk

The Municipality is exposed to equity securities price risk because of investments held by the Municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The Municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Municipality. The Municipality is not exposed to equity price risks arising from equity investments as the Municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

Market Risk



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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2016 2015

44. Risk management (continued)

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk. There has been no change to the Municipality's exposure to market risk on the manner in which it is managed.

45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

46. Unauthorised expenditure

Opening balance	144,322,830
Unauthorised expenditure	48,209,978
Unauthorised expenditure - identified in current year relating to prior year	-
	192,532,808
	351,527,420

Expenditure of R351,527,420 relating to prior years is under investigation by MPAC.

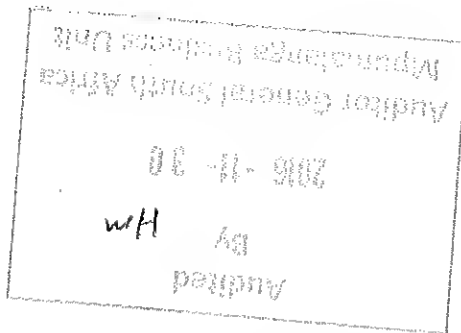
47. Fruitless and wasteful expenditure

Opening balance	25,092,706
Penalties, interest and other	7,660,673
Debt collection	-
Less: Amount written off	92,009
	32,753,379
	25,092,706

Fruitless and wasteful expenditure of R25,092,706 relating to prior years is under investigation by MPAC.

The following fruitless and wasteful expenditure occurred during the year:

ESKOM	6,100,830
Bally Sheriff	468,888
Department of Water Affairs	1,046,176
Auditor General South Africa	13,380
Telkom	28,775
MCPF	-
Excelstor Druker	-
Media 24	-
Basadzi Personnel	-
Nashua	2,623
Zandile Management Services	-
	92,009
	6,942,605
	7,660,672
	7,111,473



Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements for the year ended 30 June 2016

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48. Irregular expenditure	
Opening balance	69,121,066
Add: Irregular Expenditure - current year	134,395,703
Less: Amounts written off	-
	140,133,665
	134,395,703
Analysis of expenditure awaiting write off per age classification	
Current year	5,562,044
Prior years	134,395,703
	69,121,066
	134,395,703

Irregular expenditure to the amount of R134 395 703 relating to prior years are under investigation by MPAC.

49. Additional disclosure in terms of Municipal Finance Management Act

Material losses

2016

Electricity losses for the current year amounted to 31% i.e. R30,130,496. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 30% i.e. R759 363. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

2015

Electricity losses for the current year amounted to 36% i.e. R29,213,404. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 83% i.e. R 1,696,592,88. 56% of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

Additional text

Audit fees

Opening balance	1,775,915	-
Current year subscription / fee	3,550,697	4,735,539
Amount paid - current year	(5,826,133)	(2,959,624)
	(499,521)	1,775,915
PAYE and UIF		
Opening balance	1,167,804	-
2015 Opening balance	1,167,804	-
Current year subscription	18,546,527	13,811,504
Amount paid - current year	(18,139,499)	(12,643,700)
	1,697,672	1,167,804

Mkhondo Local Municipality

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	2,190,464	-
Current year subscription / fee	30,132,711	25,022,027
Amount paid - current year	(30,344,402)	(22,831,563)
	1,978,773	2,190,464

VAT

VAT receivable	14,253,837	24,725,118
	14,253,837	24,725,118

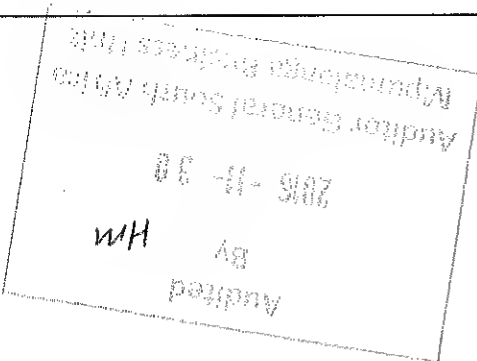
All VAT returns have been submitted by the due date throughout the period.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

Cllr. P.C. Langa	(119)	223
Cllr. V.D. Nkosi	(3,449)	2,118
Cllr. Z.E. Mthimkhulu	1,867	374
Cllr. S.J. Mathula	230	289
Cllr. S.R. Sangweni	6,457	6,111
Cllr. L.V. Mkwanaenzi	11,255	19,576
Cllr. Z. Mhisi	8,155	8,960
Cllr. M.O. Nkosi	1,340	3,037
Cllr. S.E. Nhleko	585	1,647
Cllr. J.L. Brussow	29,235	29,178
Cllr. L. Bosch	2,597	5,836
Cllr. H.A. Mncube	11,303	7,385
Cllr. B.H. Mtshali	(1,459)	-
Cllr. N.C. Ndhlovu	(16,421)	-
Cllr. M.D. Mtshali	(197)	-
Cllr. J.M. Phakathi	(2,329)	-
	49,050	84,734

The Councillors' arrear accounts are in respect of services rendered by the Municipality to the Councillors in the normal course of business. The services were rendered on terms and conditions within the normal operating parameters established by the Municipality. The Arrear accounts are unsecured, and are subject to the normal credit policy as applied to every other Consumer debtor.



Mkhondo Local Municipality

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50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

A register of deviations are kept at the Municipal Manager's office and is available for inspection.

The following deviations occurred during the financial year.

SERVICE PROVIDER	SERVICE DESCRIPTION	Amount
Mpumalanga Community Safety, Security & Liaison	Face Value Forms Z579	18,763
Drager	Alcotest Machine	39,900
Akwamonjatho Trading	Water Tankering Services	198,000
Mpangazitha Projects	Water Tankering Services	35,910
Mlungisimthobisi	Water Tankering Services	37,500
Mkhondo FM	Broadcasting	36,800
Protect-O-Burn	Fire Truck Repairs DYH515MP	347,182
Outsourced HR Recruitment	Recruitment of Candidates	65,296
Total		779,350

51. Events after the reporting date

Following the Local Government Elections held on the 3rd August 2016, the following Councillors were elected to serve the Municipality for the next five years.

Name	Status
Cllr. D.M. Thwala	Retained
Cllr. S.J. Methula	Retained
Cllr. S.S. Mathibula	Retained
Cllr. N.C. Ndhlovu	Retained
Cllr. T.E. Khumalo	Retained
Cllr. B.J. Vilakazi	Retained
Cllr. T.S. Nkosi	Retained
Cllr. M.D. Ntuli	Retained
Cllr. Z.J. Mntsi	Retained
Cllr. K.D. Masondo	Retained
Cllr. M.L. Yende	Retained
Cllr. J.L. Brussow	Retained
Cllr. G.T. Nkosi	Retained
Cllr. T.S. Matuyeka	Retained
Cllr. T.P. Hlatshwayo	Retained
Cllr. D.M. Ntsakala	New Appointment
Cllr. C.B. Mkhwanazi	New Appointment
Cllr. F.C. Mthethwa	New Appointment
Cllr. T.W. Manana	New Appointment
Cllr. N.N. Zulu	New Appointment
Cllr. S.C. Mahlobo	New Appointment
Cllr. B.C. Mkhwanazi	New Appointment
Cllr. S.M. N Bophela	New Appointment
Cllr. R.J. A Wilson	New Appointment
Cllr. M.Z. Ngwenya	New Appointment
Cllr. B.M. Khumalo	New Appointment
Cllr. B.I. Nkosi	New Appointment

Mkhondo Local Municipality

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51. Events after the reporting date (continued)

Cllr. S.Z. Yende	New Appointment
Cllr. T.B. Nkosi	New Appointment
Cllr. S.E. T Mtshali	New Appointment
Cllr. P.E. Thabede	New Appointment
Cllr. J.P. Makhathini	New Appointment
Cllr. S.D. Thwala	New Appointment
Cllr. T.S. M Zulu	New Appointment
Cllr. D.L. Ngobese	New Appointment
Cllr. R.P. Hlatshwayo	New Appointment
Cllr. T.P. Mncube	New Appointment
Cllr. V.M. Motha	New Appointment
Cllr. V.M. Motha	New Appointment

Audited
By Hm
2016 -11- 30
Auditor General South Africa
Wpumaalanga Business Unit

Mkhondo Local Municipality Appendix B

Analysis of property, plant and equipment as at 30 June 2016 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	46,627,243	-	(1,208,196)	(38,000)	-	(10,297,189)	35,083,859	-	-	-	(955,822)	(14,884)	(11,969,859)	35,083,859
Buildings (Separate for AFS purposes)	31,921,152	-	(108,893)	24,032,898	-	2,377,494	58,222,672	(12,604,356)	1,861,348	(256,145)	(955,822)	(14,884)	(11,969,859)	46,252,913
	78,548,395	-	(1,317,089)	23,994,898	-	(7,919,694)	93,306,531	(12,604,356)	1,861,348	(256,145)	(955,822)	(14,884)	(11,969,859)	81,336,672
Infrastructure														
Roads, Pavements & Bridges	1,131,038,145	156,329	-	19,087,503	-	3,675,122	1,153,957,099	(540,872,400)	-	-	(42,859,855)	-	(583,332,255)	570,624,844
Storm water	51,485,976	-	-	-	-	-	51,485,976	(31,394,949)	-	-	(1,215,645)	-	(32,610,595)	18,895,281
Transmission & Retention	480,233,678	830,068	-	3,398,143	-	46,451,786	(270,847,549)	(270,847,549)	-	-	(11,280,427)	-	(282,127,976)	182,333,810
Water purification	217,509,725	-	-	20,701,247	-	-	238,210,972	(98,278,598)	-	256,145	(5,893,595)	-	(103,776,148)	134,494,824
Sewerage purification	232,983,236	-	-	522,850	-	-	233,506,086	(118,867,275)	-	-	(4,398,309)	-	(123,283,654)	110,242,502
	2,093,280,587	986,397	-	43,709,743	-	3,675,122	2,141,631,619	(1,060,050,771)	-	256,145	(65,245,932)	-	(1,125,050,658)	1,016,581,261
Community Assets														
Parks & gardens	2,724,500	-	-	-	-	-	2,724,500	(1,253,270)	-	-	(54,490)	-	(1,307,760)	1,416,740
Sportsfields and stadium	2,807,000	-	-	-	-	-	2,807,000	(1,291,220)	-	-	(55,140)	-	(1,347,360)	1,459,640
Community halls	7,780,000	-	-	-	-	-	7,780,000	(5,198,800)	-	-	(95,600)	-	(5,294,400)	2,485,600
Libraries	1,560,000	-	-	-	-	-	1,560,000	(653,600)	-	-	(31,200)	-	(684,800)	875,200
Other	1,933,390	-	-	-	-	-	1,933,390	(263,389)	-	-	(38,746)	-	(302,135)	1,631,275
Cemeteries	17,625,308	-	-	-	-	-	17,625,308	(423,682)	-	-	(352,508)	-	(776,158)	16,849,150
	34,430,198	-	-	-	-	-	34,430,198	(9,083,911)	-	-	(628,682)	-	(9,712,593)	24,717,605

Mkhondo Local Municipality Appendix B

Analysis of property, plant and equipment as at 30 June 2016 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other charges, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets														
General vehicles	24 833 993	-	(130,766)	-	-	-	24,704,927	(16 623 501)	130,766	-	(2 390,730)	12,476	(18 870,989)	5 833,938
Plant & equipment	12 660 606	480 705	-	-	-	-	13,141,311	(10,603,016)	-	-	(635,098)	-	(11,439,114)	1,702,197
Computer Equipment	4 091,089	537,610	(42,397)	-	-	-	4,586,302	(3,164,835)	13,673	-	(625,183)	-	(3,777,175)	809,127
Furniture & Fittings	5 800,418	275,134	-	-	-	366,208	6,441,760	(3,938,715)	-	-	(651,164)	-	(4,589,879)	1 851 881
Office Equipment	2 085 307	577 988	-	-	-	-	2,663,295	(1,137,535)	-	-	(409,347)	-	(1,546,882)	1 086,388
Work in Progress	96 672,098	209,776,860	-	(67 742,632)	-	-	238,706,326	-	-	-	-	-	-	238,706,326
	146,125,211	211,548,277	(173,163)	(67,742,632)	-	366,208	290,223,901	(35,467,622)	144,639	-	(4,913,532)	12,476	(40,224,039)	249,999,862

Mkhondo Local Municipality Appendix B

Analysis of property, plant and equipment as at 30 June 2016 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	78,548,395	-	(1,317,059)	23,994,839	-	(7,919,694)	93,306,531	(12,604,356)	1,961,248	(256,145)	(955,822)	(14,894)	(11,969,859)	81,336,672
Infrastructure	2,093,260,557	986,397	-	43,709,743	-	3,675,122	2,141,631,819	1,060,060,771	-	256,145	(65,245,932)	-	1,125,060,569	1,016,581,261
Community Assets	34,430,198	-	-	-	-	-	34,430,198	(8,083,911)	-	-	(628,682)	-	(9,712,593)	24,717,605
Other assets	146,125,211	211,648,277	(173,163)	(67,742,532)	-	366,208	230,223,901	(35,467,622)	144,639	-	(4,913,532)	12,476	(40,224,039)	249,999,862
	2,352,364,361	212,634,674	(1,490,222)	(38,000)	-	(3,878,364)	2,559,592,449	1,117,215,680	2,005,987	-	(71,743,966)	(2,408)	1,186,957,049	1,372,635,400
Agricultural/Biological assets														
Biological assets	70,794,896	-	-	-	1,469,913	-	72,264,809	-	-	-	-	-	-	72,264,809
	70,794,896	-	-	-	1,469,913	-	72,264,809	-	-	-	-	-	-	72,264,809
Investment properties														
Investment property	32,464,300	-	-	38,000	-	-	32,502,300	(14,154,700)	-	-	(546,700)	(273,000)	(14,974,400)	17,527,900
	32,464,300	-	-	38,000	-	-	32,502,300	(14,154,700)	-	-	(546,700)	(273,000)	(14,974,400)	17,527,900
Total														
Land and buildings	78,548,395	-	(1,317,059)	23,994,839	-	(7,919,694)	93,306,531	(12,604,356)	1,961,248	(256,145)	(955,822)	(14,894)	(11,969,859)	81,336,672
Infrastructure	2,093,260,557	986,397	-	43,709,743	-	3,675,122	2,141,631,819	1,060,060,771	-	256,145	(65,245,932)	-	1,125,060,569	1,016,581,261
Community Assets	34,430,198	-	-	-	-	-	34,430,198	(8,083,911)	-	-	(628,682)	-	(9,712,593)	24,717,605
Other assets	146,125,211	211,648,277	(173,163)	(67,742,532)	-	366,208	230,223,901	(35,467,622)	144,639	-	(4,913,532)	12,476	(40,224,039)	249,999,862
Agricultural/Biological assets	70,794,896	-	-	38,000	1,469,913	-	72,264,809	-	-	-	(546,700)	(273,000)	(14,974,400)	72,264,809
Investment properties	32,464,300	-	-	-	-	-	32,502,300	(14,154,700)	-	-	-	-	-	17,527,900
	2,455,623,557	212,634,674	(1,490,222)	-	1,469,913	(3,878,364)	2,664,359,558	1,131,371,360	2,005,987	-	(72,290,666)	(275,408)	1,201,931,449	1,462,428,109

Mkhondo Local Municipality Appendix D

Segmental Statement of Financial Performance for the year ended

Prior year		Current year	
Actual Income	Actual Expenditure	Actual Income	Actual Expenditure
Rand	Rand	Rand	Rand
Surplus	(Deficit)	Surplus	(Deficit)
Municipality			
242,932,492	158,607,731	84,324,761	Executive & Council/Mayor and Council
1,088,870	15,608,006	(14,519,136)	Finance & Admin/Finance
8,504,734	34,583,262	(26,078,528)	Planning and Development/Economic
-	990,368	(990,368)	Health/Clinics
162,173	1,949,471	(1,787,298)	Comm. & Social/Libraries and archives
331,790	87,134	244,656	Housing
14,913,702	31,530,273	(16,616,571)	Public Safety/Police
20,616	7,266,117	(7,245,501)	Sport and Recreation
14,745,749	22,463,101	(7,717,352)	Waste Water Management/Sewerage
16,805,718	32,662,484	(15,856,766)	Water/Water Distribution
99,834,377	99,840,624	(6,247)	Electricity /Electricity Distribution
15,135,907	23,223,590	(8,087,683)	Other/Air Transport
414,476,128	428,812,161	(14,336,033)	Total
414,476,128	428,812,161	(14,336,033)	Municipality
414,476,128	428,812,161	(14,336,033)	Total
575,644,997	490,704,790	84,940,207	
575,644,997	490,704,790	84,940,207	

Mkhondo Local Municipality Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2016

Current year	Current year	Adjusted	Variance	Explanation of Significant Variances greater than 10% versus Budget
2016	2016	budget	Rand	Var
Rand	Rand	Rand		
Act. Bal.				
Revenue				
Service charges	120,785,386	129,207,000	(8,421,614)	(6.5) Immaterial
Agency services	9,743,260	6,795,000	2,948,260	43.4 Projected income under budgeted for
Licences and permits	31,508	40,000	(8,492)	(21.2) Over budgeted for
Rental income	758,391	798,000	(39,609)	(5.0) Variance immaterial
Other income - (rollup)	24,105,326	14,042,000	10,063,326	71.7 More income from timber sales realised.
Interest received -	11,687,746	8,283,000	3,404,746	41.1 More interest from debtors realised than budgeted.
Dividends received	-	-	-	-
Expenses				
Personnel	(128,741,429)	(117,516,000)	(11,225,429)	9.6 Variance immaterial
Remuneration of councillors	(13,086,474)	(13,500,000)	413,526	(3.1) Variance immaterial
Depreciation	(72,299,028)	(73,058,000)	758,972	(1.0) Variance immaterial
Impairment	(3,181,310)	-	(3,181,310)	- Licence fees impairment not budgeted for.
Finance costs	(12,698,943)	(249,000)	(12,449,943)	0.0 Interest on supplier over due accounts not budgeted for.
Debt impairment	(29,265,729)	(28,699,000)	(566,729)	2.0
Repairs and maintenance - General	(34,513,029)	(16,227,000)	(18,286,029)	112.7 Motor vehicles budgeted for under general expenses.
Repairs and maintenance - General	-	-	-	-
Repairs and maintenance	-	-	-	-
Bulk purchases	(101,297,056)	(93,915,000)	(7,382,056)	7.9 Variance immaterial.
Transfers and Subsidies	(3,929,752)	(12,835,000)	8,905,248	(69.4) Few consumers accessed the subsidies that projected.
General Expenses	(91,692,039)	(87,656,000)	(4,036,039)	4.6 Motor vehicles expenditure is under repairs and maintenance.
Other revenue and costs	(490,704,789)	(443,655,000)	(47,049,789)	10.6
Gain or loss on disposal of assets and liabilities	(151,579)	(1,500,000)	1,348,421	(89.9)
Fair value adjustments	1,062,926	-	1,062,926	- Positive movements in biological assets not budgeted for.
Net surplus/ (deficit) for the year	(322,681,825)	(285,990,000)	(36,691,825)	12.8

Mkhondo Local Municipality
Appendix G3
Budgeted Financial Performance (revenue and expenditure)
for the year ended 30 June 2016

2016/2015													
2015/2014													
Original Budget	Budget Adjustments (i.e. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.e. s31 of the MFMA)	Virement (i.e. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Restated Audited Outcome
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Revenue By Source													
Property rates	-	-	-	-	38,936,000	34,003,490	(4,932,520)		87 %	87 %			31,363,162
Property rates - penalties & collection charges	-	-	-	-	-	-	-		Div/0 %	Div/0 %			-
Service charges - electricity revenue	99,278,999	-	99,278,999	-	99,278,999	89,281,225	(9,997,774)		90 %	80 %			88,121,428
Service charges - water revenue	14,334,000	-	14,334,000	-	14,334,000	15,090,582	756,592		105 %	105 %			11,890,498
Service charges - sanitation revenue	7,389,000	-	7,389,000	-	7,389,000	7,702,908	313,908		104 %	104 %			5,945,306
Service charges - refuse revenue	8,205,000	-	8,205,000	-	8,205,000	8,710,661	505,661		106 %	106 %			7,774,493
Service charges - other	-	-	-	-	-	-	-		Div/0 %	Div/0 %			-
Rental of facilities and equipment	798,000	-	798,000	-	798,000	-	(798,000)		%	%			-
Interest earned - external investments	1,449,000	(949,000)	500,000	-	500,000	1,028,297	528,297		208 %	71 %			1,343,117
Interest earned - outstanding debtors	7,783,000	-	7,783,000	-	7,783,000	10,659,449	2,876,449		137 %	137 %			8,067,981
Dividends received	-	-	-	-	-	-	-		Div/0 %	Div/0 %			-
Fines	1,142,585	-	1,142,585	-	1,142,585	3,779,066	2,636,481		331 %	331 %			4,456,644
Licences and permits	39,567	-	39,567	-	39,567	31,508	(8,059)		80 %	80 %			77,154
Agency services	5,795,000	-	5,795,000	-	5,795,000	9,743,260	3,948,260		143 %	143 %			9,177,261
Transfers recognised - operational	161,928,000	34,480,000	196,408,000	-	196,406,000	168,294,917	(28,111,083)		86 %	104 %			137,188,290
Other revenue	14,042,000	-	14,042,000	-	14,042,000	25,926,643	11,884,643		185 %	185 %			14,389,451
Gains on disposal of PPE	-	1,500,000	1,500,000	-	1,500,000	151,579	(1,348,421)		Div/0 %	Div/0 %			(488,097)
Total Revenue (excluding capital transfers and contributions)	362,118,151	35,031,000	397,149,151	-	397,149,151	374,403,555	(22,745,596)		94 %	103 %			321,420,483

Mkhondo Local Municipality
Appendix G3
Budgeted Financial Performance (revenue and expenditure)
for the year ended 30 June 2016

	2016/2015										2015/2014			
	Original Budget		Budget Adjustments (i.e. s28 and s31 of the MFMA)		Final adjustments budget		Shifting of funds (i.e. s31 of the MFMA)		Virement (i.e. Council approved policy)		Final Budget		Actual Outcome	
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Expenditure By Type														
Employee related costs	113,732,000	3,784,000	117,516,000	-	-	117,516,000	128,741,429	-	-	11,225,429	110 %	113 %	-	110,945,536
Remuneration of councillors	11,188,000	2,302,000	13,500,000	-	-	13,500,000	13,096,474	-	-	(413,526)	87 %	117 %	-	12,840,289
Dairt Impairment	28,688,000	-	28,688,000	-	-	28,688,000	32,171,632	-	-	3,472,832	112 %	112 %	-	28,035,074
Depreciation & asset impairment	73,058,000	-	73,058,000	-	-	73,058,000	72,574,434	-	-	(483,566)	99 %	89 %	-	72,698,744
Finance charges	448,000	(197,000)	249,000	-	-	249,000	12,698,943	-	-	12,449,943	5,100 %	2,847 %	-	7,528,066
Bulk purchases	93,815,000	-	93,815,000	-	-	93,815,000	101,297,056	-	-	7,382,056	108 %	108 %	-	82,866,518
Other materials	12,889,000	-	12,889,000	-	-	12,889,000	16,227,000	-	-	(16,227,000)	- %	- %	-	-
Contracted services	28,161,000	3,338,000	31,500,000	-	-	31,500,000	3,929,752	-	-	(29,463,000)	31 %	31 %	-	6,479,875
Transfers and grants	12,835,000	1,302,000	14,137,000	-	-	14,137,000	3,929,752	-	-	(8,905,248)	223 %	259 %	-	105,780,821
Other expenditure	48,241,000	9,952,000	58,193,000	-	-	58,193,000	129,846,846	-	-	71,653,846	223 %	259 %	-	-
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure	423,174,000	20,481,000	443,655,000	-	-	443,655,000	494,346,556	-	-	50,691,556	111 %	117 %	-	427,178,022
Surplus/(Deficit)	(61,055,849)	14,550,000	(46,505,849)	-	-	(46,505,849)	(118,943,011)	-	-	(73,437,162)	258 %	196 %	-	(105,757,539)
Transfers recognised - capital	81,385,000	119,187,000	201,072,000	-	-	201,072,000	191,035,163	-	-	(10,036,837)	96 %	233 %	-	85,375,324
Contributions recognised - capital	-	38,534,000	38,534,000	-	-	38,534,000	12,642,184	-	-	(25,891,816)	32 %	DIV0 %	-	5,045,182
Contributed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	20,823,151	173,271,000	194,100,151	-	-	194,100,151	83,734,336	-	-	(110,365,615)	43 %	402 %	-	(14,336,033)
Taxation	-	-	-	-	-	-	-	-	-	-	DIV0 %	DIV0 %	-	-
Surplus/(Deficit) after taxation	20,823,151	173,271,000	194,100,151	-	-	194,100,151	83,734,336	-	-	(110,365,615)	43 %	402 %	-	(14,336,033)
Attributable to minorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality	20,823,151	173,271,000	194,100,151	-	-	194,100,151	83,734,336	-	-	(110,365,615)	43 %	402 %	-	(14,336,033)
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-	DIV0 %	DIV0 %	-	-
Surplus/(Deficit) for the year	20,823,151	173,271,000	194,100,151	-	-	194,100,151	83,734,336	-	-	(110,365,615)	43 %	402 %	-	(14,336,033)